

After Sanctions Law, U.S. Policy on Africa Is in State of Disarray

By David B. Ottaway
Washington Post Service

WASHINGTON — The passage of the South African sanctions bill appears to have left U.S. policy in southern Africa in disarray, with the Reagan administration now in a weaker position to influence the

American foreign policy toward South Africa, saying it showed that the United States "stands on the side of those struggling for democracy."

Representative Howard E. Wolpe of Michigan, the Democratic chairman of the House Foreign Affairs subcommittee on Africa, agreed with Mr. Lugar that U.S. policy was on the verge of a new era. But he noted that Congress, not the administration, has been reshaping the policy and warned that the result could be "confused confusion."

"The instincts of the administration continue to run contrary to the new policy," he said. "We have a series of wholly inconsistent policies."

white government in Pretoria or to act as peacemaker in the region. Administration supporters and critics seem to agree that serious questions remain as to how those in charge of implementing the new U.S. policy will react. In effect, the Reagan administration has been ordered by Congress to carry out a sanctions policy that it vigorously opposed down to the last vote.

Moreover, those in direct charge of implementing it, Secretary of State George P. Shultz and the assistant secretary of state for African affairs, Chester A. Crocker, have been the administration's most vocal opponents of new sanctions, leaving open the question of whether they will work to implement or undermine the new tough policy toward the South African government.

"Congress can't legislate what people say at the State Department or the White House," said a Senate staff aide who added that U.S. credibility in southern Africa may have suffered a major blow. "We are making ourselves irrelevant until the administration comes up with a policy we can all support."

Senator Richard G. Lugar of Indiana, the Republican chairman of the Senate Foreign Relations Committee who Thursday led the battle to override President Ronald Reagan's veto, called passage of the sanctions bill "a new beginning for

RELATED ARTICLES

Members of the Black Caucus in Congress were jubilant over the sanctions. Page 3.

Chief Massachusetts Republican black-white negotiations must recognize South Africa as one country. Page 6.



John Rummings, above center, and an unidentified companion on the Berlin Wall. Both were arrested, and the companion had to be dragged from the wall.

American Seized After 2d Ramble Atop Berlin Wall

BERLIN — An American has been arrested by East German border guards after climbing onto the Berlin Wall, two months after he was detained in a similar incident, the police said.

A spokesman said John Rummings, 68, had scaled the wall near Potsdam Square in the western half of the city and had been arrested after he started running along it. Another man, whose identity was not known, was also detained, the spokesman added.

Mr. Rummings, from Seattle, was seized by guards in August after running along the wall and knocking chunks out of it with a hammer. He was released to the U.S. Embassy in West Berlin the following day. Diplomats said that Mr. Rummings had a history of such protests.

Soviet Nuclear Submarine Burns Off Bermuda; 3 Die

Sister Vessel Tows It Away From U.S.

By Celestine Bohlen
Washington Post Service

MOSCOW — A fire aboard a Soviet nuclear submarine in waters off Bermuda killed three crew members and injured others, Tass has announced.

The Soviet news agency said Saturday that Moscow did not believe there was danger of "unauthorized action of weapons, a nuclear explosion or radioactive contamination of the environment" as a result of the fire, which broke out Friday.

Neither Tass nor Soviet officials provided further details on the accident Sunday.

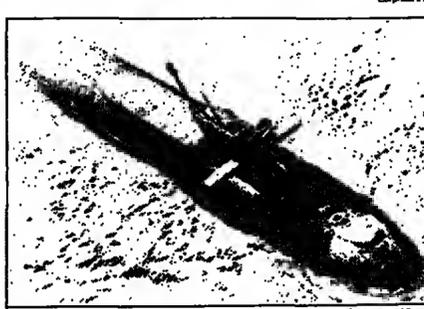
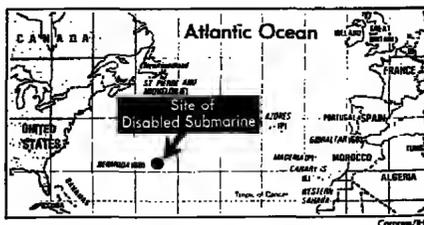
In Washington, a Pentagon spokesman said that a U.S. Navy surveillance aircraft had "observed the submarine on the surface," at 1,196 miles (1,940 kilometers) east of Cape Hatteras, North Carolina, and 532 miles east of Bermuda.

The submarine began slowly moving again on its own power Sunday, then hooked up a line to another Soviet vessel that towed it away from the U.S. coast toward the northeast, the Pentagon said. The Associated Press reported from Washington. The fire on the submarine appeared to be out, said Major Larry Icenogle, a Pentagon spokesman.

The submarine began moving early Sunday afternoon under its own power at two nautical miles an hour, Major Icenogle said. But a little more than four hours later, around 5 P.M., he reported, "the Soviet sub is under tow by the Soviet merchant vessel Krasnogvoryetsk."

U.S. planes detected no radiation from the crippled vessel, George P. Shultz, the U.S. secretary of state, said earlier in the day. "There are U.S. planes overhead, so we know that it's true that there's no additional radioactivity in the atmosphere," he said. "And I gather they have some method of measuring what's going on in the

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A U.S. Navy photo of a Yankee-class Soviet submarine.

Release of Radioactivity Is Unlikely, Experts Say

By Robert D. McFadden
New York Times Service

NEW YORK — A large release of radioactivity from the fire-damaged Soviet submarine in the north Atlantic is highly unlikely, according to private and government experts on nuclear technology.

Even if such a release did occur, they said Saturday, its dangers would be minimal to people in the countries bordering the Atlantic. The experts also said that there was no danger of a nuclear explosion, either in the submarine's reactor or in its nuclear-tipped ballistic missiles.

In order to detonate, a nuclear missile must be armed, and it can-

not otherwise be set off by a fire or a jarring, the experts said. They noted that Soviet and American submarine commanders were under orders not to arm the missiles unless they were about to be used.

Contrary to a widely held belief, a nuclear reactor cannot explode in the sense that a nuclear bomb blows up, the experts said, though smaller chemical explosions of nuclear fuel are possible in a fire or runaway chain reaction.

"In a reactor, military or commercial, it's physically not possible for there to be a nuclear explosion," said Mark Mills, the president of Science Concepts Inc., an

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Gorbachev to Press for a Missile Cut, Russians Say

By Gary Lee
Washington Post Service

MOSCOW — When Mikhail S. Gorbachev meets with President Ronald Reagan on Saturday, the Soviet leader's aides say, his most promising prospect is to seal an agreement to scale back medium-range missiles.

Such an accord would bring the arsenal of Soviet SS-20s aimed at Western Europe down to a token level and diminish the damage that

their deployment has done to Moscow's image in Europe.

The Soviet-proposed meeting in Iceland could thus be interpreted as an escalation of the "charm offensive" aimed at Western Europe that Mr. Gorbachev initiated a year ago. In a speech then to members of the French Parliament, he called for "the speediest mutual reduction" of medium-range missiles.

Mr. Gorbachev later mounted a campaign for an accord on inter-

mediate-range nuclear forces. In so doing, he rejected the rigid stance that his predecessors took in November 1983, when they walked out of Geneva arms control negotiations to protest the stationing of Pershing-2 and cruise missiles by NATO in response to the buildup of SS-20s in the European part of the Soviet Union.

The Soviet comments came on the heels of remarks Friday by administration officials in Wash-

ington that the Iceland meeting could produce "an agreement to agree" on how to resolve the long-standing differences on medium-range missiles.

Western diplomats in Moscow regard the prospective Soviet agreement to dismantle the SS-20s as tantamount to an admission that the Kremlin made a political blunder in the 1970s when it began to pepper the European part of the country with 270 of the missiles.

Asked last week at a press conference in Helsinki why the Soviet Union had built up such a stockpile of SS-20s, Georgi Arbatov, director of the U.S.A. and Canada Institute, reportedly told journalists: "Sometimes I wonder that myself."

But by Western accounts there could be important benefits for Mr. Gorbachev if he, in effect, tacitly acknowledged the mistake and pushed Mr. Reagan for an accord on intermediate-range forces during their meeting in Iceland.

"If those SS-20s are ever really removed," said a West European diplomat, "everyone from Berlin down to Rome will break out in jubilation at Moscow's peace initiatives."

When Mr. Gorbachev came out Jan. 15 with his blueprint for worldwide disarmament by the year 2000, it included a step-by-step plan for eliminating the European-based SS-20s, the 108 U.S.-built Pershing-2 missiles in West Germany and the 256 U.S. cruise missiles already stationed in five West European countries.

Western analysts in Moscow regarded the European missiles as the most plausible part of the package, but one with too many strings at-

tached to other elements of the arms control negotiations.

Mr. Gorbachev, however, has since dropped a condition that Washington back away from its commitment to the anti-missile defense system known as the Strategic Defense Initiative, or "star wars," before a deal on medium-range missiles can be struck.

He has also apparently waived the original demand that cuts, or at least a freeze, in British and French arsenals be negotiated as part of an accord reducing medium-range missiles.

Complaining in a newspaper interview early last month that "not one inch" of progress on arms control had been made with Washington, Mr. Gorbachev sent a letter to Mr. Reagan with new proposals for reductions in intermediate-range forces and a suggestion that the two leaders meet.

On the eve of the meeting in Iceland, the "only substantive hang-up" in the negotiations on intermediate-range forces is a Soviet reluctance to include its 171 Astor-based SS-20s in the reductions, according to diplomatic sources in Moscow.

"But I have the sense that there is flexibility of that point, too," a Western diplomat said.

Some Western diplomats in Moscow, and Soviet officials, too, interpret the bid for such an agreement as a reflection of the need for the Soviet leadership to produce a tangible success in its foreign policy, thus proving to critics that its new and sometimes controversial positions are viable.

But Soviet officials also said that

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Orlov Freed; Dissident And Wife Arrive in U.S.

By Paul Valentine
Washington Post Service

NEW YORK — Yuri Orlov, a Soviet dissident whose release from Siberian exile was part of the U.S.-Soviet agreement last week to free Nicholas Daniloff, arrived Sunday in the United States.

Shortly after stepping off an Aeroflot jet at Kennedy International Airport, Mr. Orlov said he was grateful to "start a new life," and to "say whatever I want freely."

But he added, "I have very complicated feelings." He said he had left his homeland and "my native language, my native culture."

Mr. Orlov reportedly had hoped to be released from exile but allowed to remain in the Soviet Union as a free citizen. Some supporters said he had not sought to emigrate and viewed his part in the Daniloff agreement as an expulsion.

Mr. Orlov was accompanied on the flight from Moscow by Richard Combs, deputy chief of mission at the U.S. Embassy.

Mr. Orlov thanked Mr. Combs and other U.S. officials for his release, a move that came after the Soviet Union released Mr. Daniloff, a journalist charged with espionage, and the U.S. released Genadi F. Zakharov, a Soviet employee at the United Nations charged with espionage.

Mr. Orlov, 62, along with his wife, Irina, 40, spoke briefly at the airport. He described his health as "not bad" and said his immediate plans were to continue studies as a physicist. Mrs. Orlov said, "I'm just happy that at last my husband is free."

Mr. Orlov had headed the Moscow branch of an unofficial committee established in 1976 to monitor Soviet compliance with the human rights provisions of the



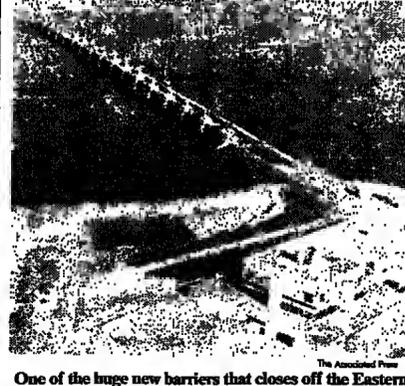
Yuri Orlov after his arrival in New York on Sunday.

East-West Helsinki accords of 1976.

He made numerous reports to Western diplomats and reporters, alleging violations and was arrested and convicted under laws prohibiting anti-Soviet propaganda. He was sentenced in 1978 to seven years in prison and five years in exile in Siberia.

When Mr. Gorbachev came out Jan. 15 with his blueprint for worldwide disarmament by the year 2000, it included a step-by-step plan for eliminating the European-based SS-20s, the 108 U.S.-built Pershing-2 missiles in West Germany and the 256 U.S. cruise missiles already stationed in five West European countries.

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One of the huge new barriers that closes off the Eastern Scheldt estuary from the North Sea. At bottom right is the building that houses the project's control room.

Dutch Inaugurate Advanced Sea Barrier

Project Is Final 'Finger in Dike'

By Joseph Lelyveld
New York Times Service

NEELTJE JANS, Netherlands — Queen Beatrix has pushed a button here dropping a row of steel gates on the coast-

lines and technologically most advanced sea barrier the Dutch have erected in the nine centuries they have been battling the sea.

Designed to repulse the sea at its fiercest, the gates are each 500 tons in weight, 17 feet (5.16 meters) thick and 130 feet wide. In all, there are 62 of them, set between concrete piers in the Eastern Scheldt River's three channels. In a strong southwest, comparable to the one in 1953 that drove the highest tides in recorded history against Zeeland's dikes, with the loss of 1,835 lives, the 62 gates can be dropped simultaneously.

Stretching for a mile and a half (2.4 kilometers), the sea barrier is the largest Dutch public works project since the war, costing \$2.4 billion. A triumph of hydraulic engineering, it used new techniques and equipment and caps a 30-year project designed to virtually eliminate the chance of a recurrence of the 1953 disaster.

What is expected to be the last major water-control project in the Netherlands may be inactive most of its life, except for the highway atop the flood-

Turks Upset By U.S. Offer On Bases

By Loren Jenkins
Washington Post Service

ANKARA — Prime Minister Turgut Ozal has expressed unhappiness at what he called the lack of serious aid offers for reworking the accord on American use of major nuclear-staging and intelligence-gathering facilities in his nation.

"I think it is very clear that promises given by the U.S. administration are just promises, not commitments," Mr. Ozal said in an interview Friday. "Maybe we don't show our unhappiness like others show it, but it is there."

Mr. Ozal spoke as his foreign minister, Vahit Halefoglu, held an apparently unfruitful 35-minute meeting with Secretary of State George P. Shultz in New York about the deadlock over the renewal of the five-year U.S.-Turkish Defense and Economic Agreement.

The agreement technically expired in December, but automatically renews itself for a year at a time unless one side gives notice that it will cancel. Turkey has not threatened to cancel, as neighboring Greece has with its agreement with the United States, but has asked for terms to be renegotiated.

The agreement, signed in 1980, provides for U.S. use of Turkish military facilities in exchange for U.S. military and economic aid. Turkey, a nation of 51 million people, anchors the North Atlantic Treaty Organization's vulnerable eastern flank.

The accord allows the United States to maintain a strike force of several squadrons of air force F-16 fighter-bombers on the northern rim of the Middle East as well as to operate intelligence facilities that monitor communications, missile launches and nuclear tests in the Soviet Union.

While U.S. officials declined to speak about the subject, high-level Turkish officials maintained that the agreement also provides for the maintenance of U.S. nuclear-arms stockpiles, which they said include "actual planes with bombs waiting to fly in case of war."

Mr. Ozal and other Turkish officials indicated they believed they were providing the United States with much more than Washington was paying for.

Turkish officials said they want a commitment of much greater U.S. aid to help modernize the 630,000-member Turkish armed forces, NATO's second-largest standing army.

With the Turkish Army still using old M-48 tanks and the air

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Democratization is likely to weaken French banks in international competition. A report on French banking. Page 7.

After Stylish Victory, Kasparov's Crown Seems Secure

By Serge Schmemmann
New York Times Service

MOSCOW — As 800 people watched in tense silence in the Leningrad Hotel concert hall, the referee in the world chess championship match opened Saturday a move sealed by Garry Kasparov in a game that had been adjourned the night before.

Then, when the move was announced, the crowd exploded in a standing ovation, aware that the move guaranteed a victory for Mr. Kasparov in the game and, barring a near-miracle, his defense of the championship.

The challenger, Anatoli Karpov, struggled for several more moves in the slender hope that Mr. Kasparov would commit a gross blunder. Faced with an inevitable checkmate, Mr. Karpov resigned the game, the 22d in his bid to regain the title he lost to Mr. Kasparov a year ago. The 24-game rematch began July 28 in London and moved to Leningrad on Sept. 5.

The victory gave Mr. Kasparov eleven and a half points to Mr. Karpov's ten and a half, and put Mr. Kasparov within a draw of victory,

because a 12-12 tie would let the champion keep his crown. The next game is to be played Monday.

Mr. Karpov needs victories in the next two games to win the match, a feat most grandmasters consider almost impossible.

Yet Mr. Karpov, a polished and meticulous strategist who held the title for 10 years before losing it, has proved capable of defying common wisdom before. Less than three weeks ago, he was down three games and had been effectively written off by the fans in Leningrad.

Then, suddenly he won three in a row and erased Mr. Kasparov's lead, tying the series and leaving the outcome to the last four games of a struggle that began 94 games and more than two years ago, on Sept. 10, 1984, in the ornate Hall of Trade Unions here.

Mr. Kasparov was then 21 years old and had stormed through the ranks of a country fabled for its addiction to chess. Mr. Karpov was 33, a mastery technician from Leningrad with a lackluster image who had assumed the champi-

onship when Bobby Fischer of the United States refused to defend it in 1975.

The rules of the first Karpov-Kasparov match called for an unlimited series that would end when one of the players had won six games. It looked at first to be a romp for Mr. Karpov, who quickly won four games.

But the young challenger abandoned his aggressive assault and settled into a defensive stance, and endless draws began to pile up. Mr. Karpov went to 5-0, but the grind began to tell on the slight champion. Suddenly, Mr. Kasparov won one game, then in quick succession the 47th and 48th.

It was then that the president of the World Chess Federation, Florencio Campomanes of the Philippines, stepped in and halted the match, contending that everyone was exhausted.

Mr. Kasparov erupted in anger, charging that he had been robbed. But the ruling stood. See CHESS, Page 6

Officials in Pacific Say Soviet Union Is Making Little Headway

By Michael Richardson
International Herald Tribune

SINGAPORE — The Soviet Union's intensified diplomatic campaign to increase its influence in the Asia-Pacific region has provoked wary responses from non-Communist countries in Southeast Asia and the Southwest Pacific.

Many officials in the region say the Kremlin's campaign has made little headway. The drive was underscored by a policy speech by the Soviet leader, Mikhail S. Gorbachev, in Vladivostok on July 28.

Mochtar Kusumaatmadja, the Indonesian foreign minister, gave the most positive assessment of Mr. Gorbachev's proposals for reducing tension and increasing cooperation among all countries in or around the Pacific basin.

In a recent interview, Mr. Mochtar said the Soviet leader's speech recognized the political diversity of the area, indicated "readiness to have peaceful coexistence in the real sense," and signaled "a change of direction" in Moscow's Asia-Pacific policy.

But, the Indonesian said, the non-Communist coun-

tries in the region would "rather go by actual facts and evidence; deeds rather than words."

Mr. Mochtar said there were "three tests by which to gauge the real intentions of Soviet policy in the area" — Moscow's preparedness to disengage from Afghanistan, Cambodia and along the Chinese-Soviet border.

Siddhi Savetilla, the Thai foreign minister, said in an interview with Asiaweek magazine that he was disappointed the Soviet Union appeared unwilling to use its influence to persuade its ally, Vietnam, to withdraw its forces from Cambodia.

Hanoi invaded Cambodia in December 1978 and overthrew the Beijing-backed Khmer Rouge regime. China now provides most of the military assistance to Cambodian guerrillas resisting the Vietnamese occupation.

Mr. Gorbachev's view that ending the conflict over Cambodia depended largely on restoring normal relations between Vietnam and China "overlooks the basic fact that Vietnamese troops are occupying Cambodia," Mr. Siddhi said.

Moscow, he said, could play a more constructive

role by halting military aid to Vietnam and getting Hanoi to negotiate with resistance groups opposed to the Vietnamese presence in Cambodia.

Gaston J. Sigur Jr., U.S. assistant secretary of state for East Asian and Pacific affairs, said at a recent conference in Washington on Oceania that Soviet attempts to expand commercial and diplomatic contacts had not been well-received.

"The reception," he said, "has been largely skeptical, tentative, and quite limited in scope."

Several U.S. and other Western officials have expressed concern that Moscow could gain a strategic foothold in the South Pacific through its expanded military power there as well as its efforts over the past few years to negotiate fishing access, trade and diplomatic agreements.

But on a visit to Fiji last month, two officials from the Soviet Embassy in Canberra were quoted as saying that prospects for developing trade links between Fiji and the Soviet Union were limited.

The officials also were reported by Reuters to have said that talks on renewing a \$1.5-million fishing agreement with Kiribati were not going well because

Moscow was not prepared to pay what Kiribati wanted.

The agreement, signed last year, is the only arrangement that gives Soviet trawlers access to the tuna fishing grounds of a South Pacific island-state in exchange for license fees.

Kietro Abisinto, Papua New Guinea's ambassador to the United States, said at the Washington conference that Pacific island nations "do not feel we have much in common with the Soviets."

But one reason for Soviet interest in the South Pacific, he said, was past neglect by the United States.

Sinnathambay Rajaratnam, senior minister in the Singapore prime minister's office, said that a shortcoming of Mr. Gorbachev's policy was that it concentrated too much on regional security and not enough on promoting economic development.

Analysts note that Soviet trade and investment in the non-Communist countries of the Asia-Pacific region are only a fraction of the aid and investment built up with the area over the past 20 years by the United States, Japan and the European Community.

WORLD BRIEFS

Armenian Group Threatens France

BEIRUT (AFP) — The Secret Army for the Liberation of Armenia threatened Sunday to attack civil aircraft, shipping and trains bound for or departing from France unless the French authorities released three people jailed for terrorist offenses.

The threat was made in two statements telephoned to the office of a Western news agency here by a man identifying himself as a spokesman for the group, which wants Armenian independence from Turkey. He demanded the release of Varoujan Garabedian, Georges Ibrahim Abdallah and Anis Naccache. Mr. Garabedian is serving a life sentence for a 1983 bombing at Orly airport in which eight persons were killed. Mr. Abdallah faces trial for the murders of two diplomats in Paris in 1982, and Mr. Naccache is serving a life sentence for an attempt to kill Shapur Bakhtiar, the former Iranian prime minister.

In Paris, police detained about a dozen Armenians and questioned them for several hours Sunday about the bomb attacks in Paris last month that left 10 dead and more than 160 injured. All of the Armenians, of French and Lebanese nationality, were released.

Report Tells of Israeli Atomic Arsenal

LONDON (UPI) — Israel has produced 100 to 200 nuclear weapons at a secret underground factory in the Negev during the past 20 years and now ranks as the world's sixth-largest nuclear power, the Sunday Times reported.

The newspaper said Israel had hidden the facility for producing nuclear warheads from spy satellites by burying it beneath a building beside the Dimona nuclear reactor deep in the Negev.

The report was based on testimony and photographs provided by a nuclear technician who had been laid off from the Dimona facility. There was no immediate comment from Israel. It has long been suspected that Israel possessed nuclear weapons, but Israel has refused comment on the matter.

Uganda Holds 5 for Stirring Dissent

KAMPALA, Uganda (Reuters) — The Ugandan authorities have arrested two government ministers, a former vice president and two other politicians on charges of attempting to foment instability, an official statement said Sunday.

The statement linked those arrested with rebel forces in northern Uganda, saying the detainees had tried to persuade soldiers at Naam-Okorra barracks, 210 miles (340 kilometers) northeast of Kampala, to defect to the rebels.

The statement, read on Radio Uganda, said those arrested Friday were Energy Minister Andrew Kayunga, Environment Minister David Lwanga and Paulo Mwangwa, who was vice president under Milton Obote, deposed as president in 1985.



Paulo Mwangwa

Famine Deaths Reported in Sudan

KHARTOUM, Sudan (Reuters) — About 15 people are dying of hunger or diarrhea each week in one of the makeshift camps set up for displaced people in Juba, southern Sudan's largest town, relief organizations said over the weekend.

The Juba area was thought to be suffering from severe food shortages, caused by the conflict between government forces and rebels in southern Sudan, but Saturday's report was the first reaching Khartoum to speak of deaths related to hunger. It did not say how long they had been going on, nor whether more than one camp was affected.

Sudan's Relief and Rehabilitation Commissioner and the UN emergency operations in Sudan said 47,500 displaced people were in Juba. A food airlift to Juba was postponed last week after rebels of the Sudan People's Liberation Army threatened to shoot down the transport plane. Relief agencies estimate that two million people are in danger of starving in southern Sudan, largely because of the conflict.

CBS Anchorman Beaten in New York

NEW YORK (AP) — Dan Rather, the CBS Evening News anchorman was recuperating Sunday after being chased, beaten and kicked on Park Avenue in Manhattan by two well-dressed men who repeatedly demanded "Kenneth, what is the frequency?" a CBS spokesman said.

During the attack Saturday night, Mr. Rather, 54, fled into a building, where a doorman pulled the two attackers off him, a police spokesman said. Their motive was unclear.

Mr. Rather told police he had left a friend's home shortly after 10:30 P.M. and was walking along Park Avenue when a man approached and asked, "Kenneth, what is the frequency?" another police spokesman said. Mr. Rather said, "I don't know what you're talking about." The man then punched Mr. Rather, knocking him to the ground. Mr. Rather ran into a building, followed by the assailant and another man, who continued repeating the question, the spokesman said. In the lobby, Mr. Rather again was knocked down and kicked in the side before being rescued.

For the Record

A strike by nearly 20,000 Swedish workers disrupted health, transport and other vital services throughout the country, organizers said Sunday. Stockholm's subway came to a standstill during the weekend, the latest step in a campaign by unions representing public sector staff to press wage demands. (Reuters)

Bleets in Oklahoma and Illinois slowly receded Sunday from record flood crests after about 45,000 people were forced from their homes over the past week. Damage in Illinois was put at \$34 million. Nine deaths were linked to flooding in the Middle West and Pennsylvania. (AP)

U.S. Seeks Hostage Talks, But Says It Won't Give In

By Bernard Gwertzman
New York Times Service

WASHINGTON — The Reagan administration says it is willing to have discussions with those holding the American hostages in Lebanon but that it will not yield to their demands.

The administration called on the captors Friday to come forward and open talks either directly or through intermediaries.

It said that despite appeals from the hostages that Washington negotiate for their release, the United States had been unable to establish any contact with the kidnappers.

Earlier Friday, Western news agencies in Beirut received a videotape in which two hostages appealed to the White House to work as hard for their freedom as for that of the journalist recently released by Moscow, Nicholas Daniloff. The hostages were Terry A. Ander-

son, correspondent for The Associated Press, and David P. Jacobsen, director of the American University Hospital in Beirut.

Their statements prompted an angry denial from President Ronald Reagan that there was any comparison between the Daniloff case and that of the Americans being held in Lebanon.

On his way to the presidential retreat in Maryland, Mr. Reagan stopped before boarding a helicopter to reply to a shouted question.

"There is no comparison between the two situations," he said, appearing angry. "In one, we were dealing with a government that had under its laws arrested one of our citizens — we think unjustly. There has never been a day that we have not been trying every channel to get our hostages back from Lebanon," Mr. Reagan added. In all, five Americans are being held in Lebanon, and another, William Buckley, is thought to have been killed.

"But they were not seized by a government," he said. "We don't know who is holding them. There's never been any contact between their kidnappers and us, other than an indirect statement that if we could persuade a third country to release some people who were tried and convicted of murder, that would be the way to get our people back."

"Well, there's no way that third country is going to do that," he said. He was referring to Kuwait, which is holding 17 persons convicted of murder in 1983 in bombing attacks on the United States and French embassies and Kuwaiti installations.

Mr. Reagan said he believed that Mr. Anderson and Mr. Jacobsen had made the tape "under the orders of their captors."

A State Department spokesman, Charles E. Rodman, said, "We've always been willing to establish contact, either through direct talks with the kidnappers or their representatives, or through third parties."

"Although the kidnappers have demonstrated that they can communicate with news agencies by letter, telephone, and videotape, they've shown no inclination to talk directly to us," he said. "We have consistently stated that we are willing to talk about the safety and return of the Americans held hostages, and our door remains open for such talks."

Despite appeals by the hostages, the only demand known to have been made by the kidnappers is for Kuwait to release the 17 prisoners, at least two of whom are Lebanese believed to be relatives of those holding the Americans hostage.



Policemen turning back a Hindu procession in Delhi. The Hindus wanted to march along a route banned by police, who feared the Hindus might clash with nearby Muslim residents. Thirty-five persons in the procession and 45 policemen were reported to have been injured.

India Is Shaken by Security Failure

Vacuum of Leadership Beneath Gandhi Adds to Distress

By Richard M. Weintraub
Washington Post Service

NEW DELHI — One of Prime Minister Rajiv Gandhi's most frequently heard themes in recent weeks has been that his government has extremists on the run but that it is at just such times that they can be the most dangerous.

Mr. Gandhi's political rhetoric has been turned into chilling fact, staking the confidence of this nation just as a new generation of young leaders is trying to make its mark.

The retired army chief of staff, General Arun S. Vaidya, was assassinated Aug. 10 and gunned narrowly missed in their attacks on the police chief of Punjab state and on the prime minister last week.

Sikh extremists have been implicated in the first and last incidents, and the gunman who attacked the prime minister and other officials also may be a Sikh, although no positive identification has been released.

The attacks, especially those of this past week, are notable for two things.

On the positive side, the people of this often volatile nation have reacted calmly, not allowing the killings or attempted assassinations to incite further the communal violence that has taken so many lives in the last few years.

On the negative side, however, is the realization that the country's newly developed prosperity and carefully nurtured belief in modern technology have not been able to buy protection for its top leaders, leaving them vulnerable to the assassin's bullet or bomb.

The corollary to that sobering realization is that there also are no clearly identifiable leaders to step in should a terrorist attack against the prime minister succeed.

"There are no national leaders around other than Rajiv and he is the beneficiary of the Gandhi name and the Nehru mantle," a political observer said after the attempt on Mr. Gandhi's life Thursday.

No one else has any national recognition, the observer said, and none of the would-be leaders has

Yet a gunman was allowed to go undetected for hours in a clump of bushes near where Mr. Gandhi was to pass.

The Delhi newspaper Hindustan Times argued Saturday that Indians, who had "undergone harassment and delay in the name of security" and who had "not begrudged the huge amounts of money being spent on raising new security forces," were entitled to ask questions. The paper said that the state of shambles around the prime minister's security was "absolutely shocking."

In the attack on the Punjab police chief, J.F. Ribeiro, seven men dressed in police uniforms were able to penetrate Friday into the center of a major police post and to escape after wounding Mr. Ribeiro and his wife.

Indians, who are quick to see a "foreign hand" in things that go wrong in the country, have not raised that argument in connection with the assassination attempts.

Karachi, the largest city in Pakistan, was rife with rumors Wednesday, the day before the attempt on Mr. Gandhi, that he had been an assassination target.

There is nothing to suggest anything other than an unusual coincidence of rumor and fact, but Pakistani intelligence experts, who at first brushed off the reports, now are scrambling to see where and how they started.

Indian officials are doing a different kind of scrambling, to see if they can patch together a security net that will display fewer holes than the one that has been in use until now.

Solidarity Leaders Cautioned

The Associated Press

WARSAW — The authorities have warned leaders of Solidarity that they risk being charged with violating the law if they continue operating under their new national council.

Lech Walesa, chairman of the banned union, and members of the seven-man council were summoned by provincial officials for questioning Saturday, but not all responded.

The official warnings were an attempt to maintain a lid on Solidarity, which has pledged to campaign openly for a restoration of free labor unions.

They came one day after the government's chief spokesman, Jerzy Urban, declared that the council, formed Thursday, was illegal.

Josef Pincus, a former underground leader from Wrocław, said he had been told that he could be charged with illegal union activities under a section of the penal code that carries a maximum prison term of five years.

"I refused to answer any questions," Mr. Pincus said.

Mr. Walesa said he had been questioned for about 30 minutes by officials at the Gdansk provincial office about the council's objectives.

"They were worried by the fact that a new organization is being created," he said, "and that its aim would be taking over the government or something like that."

Mr. Walesa said he had told the officials that the aims of the council were to help the country overcome its economic and ecological difficulties and that it did not pose a threat to Communist rule.

In addition to Mr. Pincus, the seven members of the council are Zdzislaw Bajak, Janusz Palubicki, Wladyslaw Frasyniuk, Tadeusz Jodynski, Bogdan Borsiewicz and Bogdan Lis.

Mr. Lis was unavailable for comment after his scheduled questioning, but the other five said they had refused either to accept the summonses or to report to officials.

15 Protesters Seized

Fifteen young men were arrested at a Warsaw shopping center Friday as they were demonstrating for the right of Polish draftees to refuse military service on the ground of conscience. The New York Times reported.

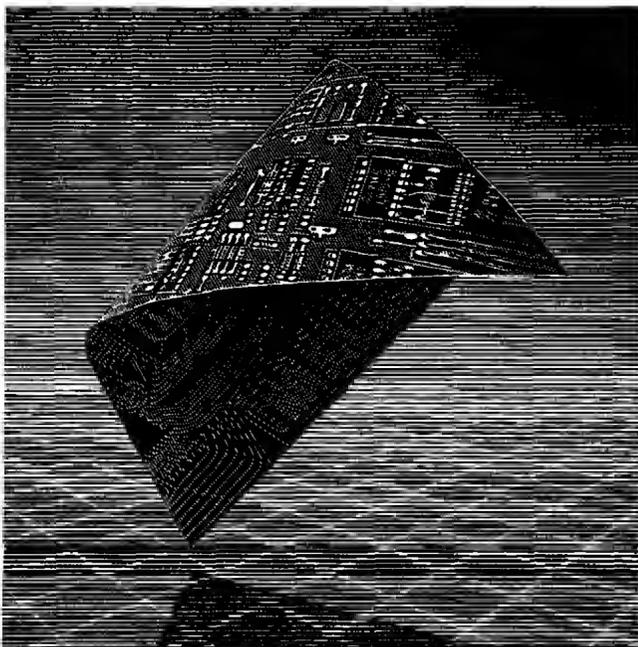
They were from the Freedom and Peace Organization, an illegal group of pacifists and conscientious objectors. They displayed placards proclaiming that the right to decline service on the ground of conscience was a human right.

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Heavy Military Load Planned When Shuttle Flights Resume

By Philip M. Boffey
New York Times Service

WASHINGTON — NASA has announced a new flight schedule for the U.S. space shuttle fleet that includes a heavy schedule of military missions when the shuttle resumes flying in early 1988 but soon cuts back to the normal rate of military flights.

There will be six flights during the shuttle's first year back in action. The schedule will include a reduced proportion of commercial flights and a heavy percentage of flights for the National Aeronautics and Space Administration's own missions, primarily devoted to deploying the space station now under development, and to major scientific missions, NASA said.

The space agency said that over the seven-year period about 41 percent of the shuttle's capacity would be used to fly Defense Department missions, an increase from about 33 percent before the Challenger disaster.

Black Caucus Is Buoyed By Victory on Sanctions

By James R. Dickenson
Washington Post Service

WASHINGTON — The Reagan years have been a lean time for the Congressional Black Caucus, but Representative John Conyers Jr. of Michigan sounded a jubilant note Friday on behalf of his fellow caucus members.



John Conyers Jr.

They had won the battle over South Africa sanctions. It was a sweet victory for a small group of House members who have felt themselves scorned by the administration, have been on the defensive in the budget-cutting age of Gramm-Rudman-Hollings and often have been ignored by their own party and colleagues.

ty's move to moderation and the political center could undermine its base of blacks, labor and liberals and might persuade the Reverend Jesse L. Jackson to run for president as an independent rather than as a Democrat in 1988.

The sanctions, which passed Congress over President Ronald Reagan's veto last week, were upmost in the minds of the 21 members of the Congressional Black Caucus at their 16th annual assembly last week.

"There could be an incredible turnout of blacks in 1988, more than ever before, because they know what's at stake in electing the next president," Mr. Leland said.

The caucus members, all Democrats, played host in Washington to about 8,000 blacks from around the United States who came to listen and talk about jobs, education, drugs, the black family, health, black involvement in foreign policy and other topics. The four-day conference ended Saturday.

Representative Charles Hayes of Illinois agreed. "There's too much saying 'Amen' to the Republicans, too much neo-toxin in the party," he said. "I'm fearful that if the leadership of the Democratic Party doesn't stop assuming that its base can be taken for granted, people will move to independent status or just not register to vote and say, 'What's the use?'"

The caucus members were jubilant that the sweeping sanctions bill written by Representative Ronald V. Dellums of California, a member of the Black Caucus, and passed by the House in June, was the basis for the more moderate but still relatively stringent measure that finally passed the Senate. Mr. Dellums's bill would have required total U.S. disinvestment in South Africa.

Buoyed by the success on South Africa, Mr. Leland said he sees the Black Caucus's clout enhanced in the future. "We chair five major committees, two joint committees and 16 subcommittees," he said. "We're responsible for getting six and a half million people off the federal income tax rolls. I got a compromise that resulted in \$600 million in aid to people starving in Africa."

AMERICAN TOPICS



A GIFT OF FLIGHT — Bob Stiles thanks his son, Robert Stiles Jr., at the Hayward, California, airport, for helping to make his dream of flying a vintage biplane come true. Mr. Stiles, a World War II fighter pilot, is rapidly losing his eyesight to cancer.

Malpractice Insurance: More Data for Debate

Although the cost of medical malpractice insurance for hospitals and doctors is increasing rapidly, it still represents a relatively small part of their expenses, according to the General Accounting Office, the investigative agency for Congress.

The New York Times reports that the agency found malpractice insurance costs nearly doubled, to \$4.7 billion from \$2.5 billion, from 1983 to 1985. This exceeded the 8 percent increase in consumer prices and the 13 percent rise in medical costs for the same period.

The agency called the increase "rather shocking," but said malpractice insurance costs still accounted for only about 1 percent of the average expense of operating a hospital and 9 percent of the average doctor's expenses.

The Times said: "The report is apt to provide evidence to support each side in the debate over the problem" of rising malpractice insurance costs.

Short Takes

Travelers arriving at major U.S. airports on international flights will be able to use a credit card to pay customs duties as of Nov. 1. But only one credit card, a new one called Discover Card, can be used. Other credit card companies refused to forgo charging the government. Federal law prohibits customs duties going anywhere but the U.S. Treasury.

Video games, which took the United States by storm in 1982 when eight million machines were sold, and nosedived to below two million last year, are making a modest comeback. The New York Times reports. Sales of the machines are expected to hit two million this year. Manufacturers cite improved electronic memory, providing more levels of play, and a new audience that has come of age since the games first gained popularity.

The Saturday Review, which in the past four years has suspended publication twice and had three different owners, is for up sale again. The Los Angeles Times reports. The 62-year-old magazine, once chiefly literary and cultural, has been aiming at a younger audience recently with articles such as "The 52 Prettiest Faces in America" and "The Secret Lives and Death" of Marilyn Monroe.

Notes About People

President Ronald Reagan, in a recent speech in Detroit, cited the progress of women's rights. He said things had improved since the 1930s. "It's not like the days of Ginger Rogers," Mr. Reagan said. "Her male counterpart got the lion's share of the publicity, but Ginger Rogers did everything that Fred Astaire did and did it with high heels on and doing it backward."

Lynna Johnson Robb, daughter of President Lyndon B. Johnson, said during a recent Democratic fund-raising dinner in Washington that every day she talks to a photograph of her father, who died in 1973. She said:

"I tell him, 'Daddy, if you were running things today, things wouldn't be as bad as they are.'" Mrs. Robb, wife of Charles S. Robb, the former governor of Virginia, said neither she nor her mother ever reads anything written about her father. "They simply aren't writing about the man we knew," she said.

Arnold Hammer, 88, the industrialist, says he has been asked so often if he owns Church & Dwight Co., the manufacturers of Arm & Hammer baking soda, that he once offered to buy the firm "so I could say yes." Now he can. Mr. Hammer's company, Occidental Petroleum, has acquired a 5 percent interest in Church & Dwight and he will have a seat on the board.

Former New Yorkers List What They Miss

About 100 New Yorkers who have moved to Atlanta have organized a "New Yorkers Network" as an antidote to homesickness. One of the organizers, Floyd Brown, took an informal survey of what members missed most about New York.

The New York Times reports that they mentioned Italian food, restaurants that stay open past midnight, bagels, off-track betting, Central Park, crowded sidewalks and the city's combative, outspoken mayor, Edward I. Koch.

And what did they miss least? Muggers, crime, bad weather, potholes, noise and graffiti. "And Mayor Koch," Mr. Brown said. "He made both lists."

—ARTHUR HIGGEB

DOONESBURY



Disinformation Plan Damaged Credibility, White House Admits

By Lou Cannon
Washington Post Service

WASHINGTON — Disclosure of a secret plan to deceive Colonel Moammar Gadhafi into believing that the United States was about to attack him "hurt the hell out of us" by raising questions about the Reagan administration's credibility, according to a White House official.

tion had undertaken a deliberate policy of deceiving the U.S. news media.

"Everyone's assuming Poindexter's memo was about what was approved," Mr. McMahon said. "Was there a policy decision to draft and place deliberately false stories in the American press or through agents of influence, either by the CIA or outside the CIA in the National Security Council or the State Department? The answer to that is no. There was no decision made to undertake such an activity."

The comments Friday by the official, who spoke on condition that he not be identified, reflected a widespread view in the administration that White House credibility in dealing with the news media has been severely damaged during a critical period preceding the superpower talks in Iceland.

The White House official who was interviewed Friday said it was "possible" that some administration officials had gone beyond approved policy. Referring to those "we affectionately call 'spooks,' you're not sure exactly what they are doing," the official said.

But President Ronald Reagan, leaving for a weekend at Camp David, Maryland, insisted for the second consecutive day that the administration had been trying merely to deceive the Libyan leader, rather than to mislead the press into printing inaccurate reports.

"Spooks" is a term sometimes applied to Central Intelligence Agency operatives.

"We are not telling lies or doing any of these disinformation things," Mr. Reagan said, responding to questions about a story that appeared Thursday in The Washington Post. The article said that the administration on Aug. 14 started a secret effort to deceive Colonel Gadhafi into believing he was about to be attacked a second time by U.S. bombers and perhaps removed in a coup.

In a statement issued Friday in reference to the Aug. 25 report, the managing editor of the Wall Street Journal, Norman Pearlstine, said that "it now seems clear that some high administration officials misled us."

Walking to his helicopter from the White House on Friday, Mr. Reagan, clearly angry, raised his arm and shouted, "No, no!" when he was asked if the United States had lied about Colonel Gadhafi.

"We remain convinced, as reported in The Journal, that the U.S. government in late summer believed Libya had resumed its active support for terrorism and that the U.S. was considering a range of options aimed at deterring such Libyan actions," Mr. Pearlstine said. "We reported this based not on one source, but on information provided by a number of sources here and abroad."

Secretary of State George P. Shultz, in remarks to reporters Thursday evening, said: "I know of no decision to have people go out and tell lies to the media. I think, however, that if there are ways in which we can make Gadhafi nervous, why shouldn't we?"

Memo Urged Strategy to Force Coup

Washington Post Service

The administration received some comfort Friday from the Senate Select Committee on Intelligence, which began a staff inquiry after The Post's report. Bernard F. McMahon, staff director of the Republican-controlled committee, told The Associated Press the staff had concluded that the administration had not deliberately attempted to plant false stories in the U.S. media.

WASHINGTON — A State Department working paper used in August in drawing up the Reagan administration's plan of deception and disinformation against Colonel Moammar Gadhafi advocated a strategy that could lead to "a coup" or assassination attempt against the Libyan leader by his own military or other opponents.

The deception plan was outlined in a memo sent to Mr. Reagan by his national security adviser, John M. Poindexter, calling for "real and illusionary events — through a disinformation program — with the basic goal of making Gadhafi think that there is a high degree of internal opposition to him within Libya, that his key trusted aides are disloyal, that the U.S. is about to move against him militarily."

The memo, circulated by the State Department on Aug. 6, stated, "The goal of our near-term strategy should be to continue Gadhafi's paranoia so that he remains preoccupied, off-balance."

Beginning with an Aug. 25 story in The Wall Street Journal and continuing subsequently in other newspapers, including The Washington Post, much of the information generated by this campaign was reported as fact.

The memo said the strategy should make Colonel Gadhafi believe "that the army and other elements in Libya are plotting against him — possibly with Soviet help. Believing that, he may increase the pressure on the army, which in turn may prompt a coup or assassination attempt."

The White House source said that the Federal Bureau of Investigation was investigating in an attempt to determine the sources both of the original Journal story and of this week's account in The Post.

The final directive approved by President Ronald Reagan did not mention assassination. It ordered covert, diplomatic and economic steps designed to deter Libyan-sponsored terrorism and bring about a change of leadership in Libya.

Mr. McMahon did not address the broader question of whether administration officials had encouraged the dissemination of an essentially inaccurate story. Instead, he commented on the specific point of whether the administra-

A 1981 executive order signed by Mr. Reagan directs that "no person employed by or acting on behalf of the United States government shall engage in, or conspire to engage in, assassination."

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INTERNATIONAL Herald Tribune

A Script for Reagan

No, says a presidential spokesman, Ronald Reagan will not have a news conference before he leaves to meet Mikhail Gorbachev in Reykjavik. It is a special shame, and not just because Mr. Reagan has averaged only seven a year. Rarely has the public so needed to hear from the president. Then what is the next best thing? A simulation. It is easy to imagine reassuring presidential answers to three urgent questions.

No to Disinformation

Almost all of government public information is an attempt not just to tell people objectively what is going on but also to make people believe one thing or another. This is an accepted form of government activity in the public arena — a way of bargaining, vying for advantage, putting a certain face on things, trying to work your will. Bluff, threat and "psychological war" are staples of both domestic politics and foreign policy.

Pinochet vs. Chileans

Augusto Pinochet responded to the failed attempt on his life last month with new spasms of official violence. Victims include human rights advocates, moderate opposition parties and the people of Santiago's slums. The United States, every significant party in Chile and even some of his fellow generals oppose General Pinochet's desire to stay in power for another decade. His response has been a war on his own people.

Bailing Out Mexico

Heave a sigh of relief that Mexico and its creditors have agreed on another big loan, but there is no end in sight for Mexico's troubles. It needs a further \$12 billion to stay afloat, and the IMF and commercial banks have prudently set easier terms than before. But no one can be confident that Mexico's government is prepared, or strong enough, to revitalize its economy.

INTERNATIONAL HERALD TRIBUNE JOHN HAY WHITNEY, Chairman 1958-1982 KATHARINE GRAHAM, WILLIAM S. PALEY, ARTHUR OCHS SULZBERGER Co-Chairmen LEE W. HUEBNER, Publisher PHILIP FOISIE, Managing Editor

Summitry in Iceland: No Place for High Hopes . . .

By William Pfaff

PARIS — The meeting to take place in Reykjavik is a summit that we are not to call a summit, and from which we accordingly should not expect the results that we had been told would come from a summit.

By William H. Luers

NEW YORK — President Ronald Reagan's forthcoming meeting in Iceland with Mikhail Gorbachev, the Soviet leader, deserves full bipartisan support.

... or a Fine Starting Point for a President in the Saddle?

resolved by personal contact between two leaders. Nearly every president since Franklin D. Roosevelt has been subjected, not without validity, to the same criticism. Somehow I feel Mr. Reagan is the least vulnerable to the bludgeonings of the Kremlin.

Some Americans Agree With Nakasone

By Hobart Rowen

WASHINGTON — A column of mine (IHT, Sept. 27) expressing dismay at Yasuhiro Nakasone's statement that America's achievement is held back by the large numbers of nonwhites in its population has brought a wide range of reaction.

time abroad sometimes find it tough to resume their careers. Finance Minister Kiichi Miyazawa told me last week he doubted that any "qualified" Japanese expert would want the top job at the International Monetary Fund, which soon becomes vacant.



Blacks Might Do Well to Talk In America's Common Idiom

WASHINGTON — It is easy to oversimplify these things, but I have an idea that the best thing teachers could do for black students is to teach them, starting as early as possible, to speak English well.

Demirel and the Road Back to Power

By Mustafa R. Gursel

ISTANBUL — When a journalist asked Selim Demirel, the former Turkish prime minister, the secret of his amazing comeback in the by-elections of Sept. 28, he answered, "Politicians never fade away. They die in the evening, but are resurrected in the morning."

with obstacles. The first is the political ban that disqualifies Mr. Demirel from officially undertaking political activity until 1992. However, both Mr. Demirel and Bulent Ecevit, another former prime minister, defied this ban openly.

IN OUR PAGES, 75 AND 50 YEARS AGO

1911: Children Sold PARIS — A curious case, in which a mother is said to have sold her children to a wandering band, comes from Rheims. M. Kneipert returned home on Wednesday (Oct. 4) to find his two nephews, Henri, aged 13, and André, aged six, who had come from Ay. Henri told him that about 15 days before their mother had sold them and their sister Marcelle, aged 11, to a band of nomads for three two-franc pieces.

1936: Gold Embargo

MADRID — The Spanish government today (Oct. 5) placed an embargo on the export of gold and silver, extending this to copper concentrates containing these metals. People are being urged to bring to banks previous means of all sorts. Persons leaving the country cannot take with them more than four pesetas in silver coinage. This action is taken to conserve the resources of the nation, according to the preamble of the government's proclamation, "with a view to better financing of the war now, and of national reconstruction in the future."

OPINION

Watch Out for a Lot More Of This Mangled Language

By George F. Will

WASHINGTON — President Reagan says he should not have said the Soviets "blinked." But they probably did — in elated disbelief.

The theory plays to two American weaknesses, parochialism and vanity.

ment produces inactivity, from which flows mangled language. Summit agreements are guaranteed. Having paid ransom to the hostage-taker, the administration is traveling to Iceland as a payment to get Mikhail Gorbachev in the mood to meet at the Geneva summit he would do. There he agreed to come to a summit in the United States. Now he is attacking a condition: He must be guaranteed a pre-engineered summit that will yield arms control agreements he can be comfortable with.

At Geneva he also agreed to the principle of 50 percent reductions of force levels. The United States has acquiesced in a Soviet retreat toward 30 percent. The administration says that 30 percent is an interim step. Administration acquiescence is another attempt to purchase partial Soviet compliance with agreements so that other soon-to-be-shredded agreements can be produced.

The administration, expert at producing deficits, is running a lummox with the Soviet Union. Outlays far exceed receipts in transactions with Moscow. In the Daniloff debacle, the administration made concessions regarding Soviet spies on the United Nations payroll, one-fourth of which payroll comes from U.S. taxpayers. The administration should at least have made the Soviets release as many dissidents as there are spies allowed to remain at the United Nations. It should have secured the release of the man, now dying in a Moscow hospital, who two years ago refused to help set up an arrest of Nicholas Daniloff.

Senior administration officials say, solemnly, that a rogue KGB may have arrested Mr. Daniloff to embarrass Mr. Gorbachev. Let's see: Mr. Gorbachev, who was a protégé of Yuri Andropov, head of the KGB, has increased the KGB coloration of the Politburo.

The absence of intellectual ballast in the administration is also apparent when Donald Reagan says that in the Daniloff case the Soviet Union lost "the public relations battle" because "now everyone knows what they are." Let's

see: After 69 years and scores of millions of corpses, the Soviet regime has suffered a significant "public relations" setback. Mr. Reagan, a man from Wall Street, thinks the struggle of the 20th century is a matter for Madison Avenue.

Administration spokesmen celebrate the Iceland summit that is not a summit because the president is a "great communicator" who can convince Mr. Gorbachev that America is sincere about arms reductions. The logic of that line is that the arms race is the result of a misunderstanding, a failure to communicate. Hitherto, less communicative presidents have failed to assuage Soviet anxieties about American intentions.

Mr. Reagan has been sold a soothing theory that explains the dynamic of the Soviet state in terms of anxieties and paranoia rather than an ideologically driven pursuit of power. The theory is that the Soviet Union is what it is (armed to the teeth, waging war on its population and aggressive at every turn) because it has had a hard history and has not had democracy to teach it civility. This interpretation of the central drama of the century — the struggle between democracy and totalitarianism — is of almost naive superficiality, but it plays to two perennial American weaknesses, parochialism and vanity.

Intellectual parochialism causes Americans to believe that everyone is like them, or can be made to be like them, by them. Americans do not take ideology seriously, so neither do Soviet leaders, "really." The administration believes that Mr. Gorbachev wants to and the arms race so he can raise his people's standard of living. It believes this for no better reason than that American politicians are primarily concerned with living standards. It partakes of the national vanity of believing that if Soviet leaders just see American supermarkets and swimming pools, they will see the folly of trying to win an arms race with a nation this rich. (Never mind that they know that the crucial and less impressive variable is the willingness of Congress to compete with Soviet military spending.)

The administration believes that the impediment to Soviet reasonableness is Soviet neurosis. A therapeutic U.S. policy can dispel that, especially a policy advocated by a great communicator, especially one who knows Communists from the experience of labor union strife in Hollywood 40 years ago.

The attitude ascribed to the administration in the five paragraphs immediately above may seem like caricatures of American innocence. However, the administration proclaims them and they explain recent events. Ronald Reagan wants a summit in order to practice therapeutic policy. Mikhail Gorbachev wants a summit because he dines on people who think like that.

Washington Post Writers Group.



LETTERS TO THE EDITOR

Living With Differences: A Black American Responds

In response to the report "Nakason's Gaffe: A Japanese View" (Sept. 29): As a black American, it is not often that I find myself in the position of defending the United States, particularly regarding the subject of racism.

Yes, Mr. Nakason, if America had no blacks or Hispanics its statistical literacy rate would probably be higher. It would be more homogeneous, a more highly intelligent and highly educated society — more, perhaps, like Japan.

But then its present history, marred as it is by racial and economic injustices, would not contain major black and Hispanic contributions in literature, science and the arts. The United States would certainly be less colorful and probably less interesting. Even more important, it would lack that great human experience that perhaps the Japanese have been denied — learning to live with differences. On balance, I think I prefer the American experience.

CHARLES STEWART, Paris.

In response to the opinion column "Nakason's Blunder, in Context" (Sept. 27) by Hobart Rowen:

May I advise columnist Rowen to turn to Page 3 of your Sept. 27 edition, where he will find a report entitled "Literacy in U.S. — Wide but Shallow."

R. PUTTEMANS, Luxembourg.

gratified to be told we would have been accepted on the basis of the test results.

Some 20 years later I appeared before a squadron warrant officer selection screening board. After the session, to my surprise, an officer asked me how, as an officer, I would treat blacks who had broken navy regulations. My answer was, the same as any other sailor. My father once told me, "If you like what you are doing, stick with it." I did, and I feel that my navy career has made a better person of me.

CLYDE ALLEN, New York.

How to Spring Russians

The case of Nicholas Daniloff, Genadi Zakharov and Yuri Orlov has at last demonstrated a means to remove from the Soviet Union all those who wish to go. The United States must simply arrest Russians within its borders, then negotiate a trade. Russians have always been good at chess.

KIRSTIN YOUNGBERG, Uithoorn, Netherlands.

A Refuge of the Oppressed

Scott Charles' letter (Sept. 27) criticizing French visa policy seems to miss the point, which is how to discourage terrorists. France, traditional refuge of the oppressed, needs the support of her friends in fighting terrorism.

MARKSALL MARY, Vaison-la-Romaine, France.

The Lower East Side Learns How to See In the New Year

By William Geist

NEW YORK — Strange sounds — something on the order of a first group trumpet lesson — wafted out the small shop onto Essex Street. Some of the passers-by gave smiles of recognition, while others stopped to find out what all the racket was.

Two teen-age boys, one Chinese and one Puerto Rican, reflecting today's population of the once predominantly Jewish Lower East Side, stopped in the doorway of the A&Y Sefarad Sundry religious store and watched a dust:

MEANWHILE

Rabbi Aaron Lichter, in black Hasidic garb, blowing on a ram's horn, accompanied by Rabbi Yitzhak Reisman, on the long twisting horn of the ibex.

The two rabbis own the shop and were demonstrating for customers the horns known as shofars, which they were purchasing to blow at Rosh ha-Shanah, the Jewish New Year, which began Friday night, and Yom Kippur.

Mr. Reisman said he was accustomed to explaining to people like these boys about shofar, tefillin, mezuzas and such, now that most of the Jewish population of the neighborhood has moved away.

"Besides," added Mr. Birnbaum, "a lot of the Jews who come around these days don't know much about their religion anymore either." All that some of them know about the High Holy Days, he said, is that alternate side of the street parking is suspended.

A half century ago, the Lower East side teemed with Jewish immigrants, and the neighborhood remains the prime Jewish marketplace in New York. Mr. Reisman fills orders from around the United States for torahs and tefillin, the little black-leather cubes containing Scriptures worn by Jews on foreheads and arms during worship services.

The neighborhood still draws thousands back for pre-holiday shopping pilgrimages. They come for religious articles, yes, but also rugelach and round challahs from Gertel's Bakery, free-chicken-soup-with-purchase-of-chicken from Muscovic G&M Kosher Caterers, and half-sour pickled tomatoes from Guss Pickles, one of New York's last remaining sidewalk pickle establishments, where there were lines all week.

"I joined this religion for the food," said Abe Klein, who had to repeat what he was saying because his mouth was full of Trickle at Gertel's.

"My grandparents came to this store," said Mr. Klein, who has moved to suburban Long Island. "My children heard about the Jewish tradition of the neighborhood and asked if we could come and see it."

"The third generation is returning to religion," said Mr. Reisman. "We have seen a tremendous revival of Orthodox Judaism, just as there has been an up-

surge in Christian fundamentalists." Customers come to the store in this pre-holiday period to buy etrog boxes, tefillin covers and 100-percent olive oil to burn in their menorahs, and dozens of other items. When there were no customers, Mr. Reisman and Mr. Lichter busied themselves at a table by the window, unstitching tefillin, checking the population of the once predominantly Jewish Lower East Side, stopped in the doorway of the A&Y Sefarad Sundry religious store and watched a dust:

"A sign of the times," he said, pointing to the sign out front that read: "Tefillin Checked While-U-Wait." "People are in a hurry." The rabbis have also been restoring torahs for the holidays.

Roberta Berg came in to buy a shofar for her son. "I was really surprised he asked for one," said Mrs. Berg, who lives in Westchester.

Mr. Reisman demonstrates techniques of blowing the shofar, as well as the religious significance of the "one long, three shorts and nine shorter stills," as he describes the sounds. The long note is a call to repentance and the shorter ones represent sobbing.

He told her to sound the shofar on Sunday morning. "Don't blow it too early in the morning," he cautioned. "One time in Greece, I believe it was, the Jews began blowing the shofars and the gentiles thought it was some sort of call to insurrection and riots ensued." Mrs. Berg said she didn't think that would be a problem in Scarsdale.

"Some customers — more or less fall-away Jews," as one of them described himself — said they were embarrassed "to ask stupid questions" — like going to the hardware store and having to ask for a doorknob. Mr. Reisman and Mr. Lichter said they were not disdainful of these people. "The only problems are when they complain about things like their tefillin not matching," Mr. Lichter said. They aren't supposed to match.

Mr. Reisman pointed out the increasingly popular Passover platters with the directions for the Passover seder written on them, and the four questions that the youngest boy in the family is to ask.

Another shopper on the block said she had recently become interested in returning to the Jewish traditions that her grandparents practiced. She wasn't sure why, but guessed that it had something to do with looking for something "to cling to, to believe in" at a time when "everything seems so adrift."

When the elderly Mr. Birnbaum heard about what she had to say, he said that was cause for a blast on the shofar. He walked into the next shop, picked one up and gave it a blast.

"Shanah Tovah!" he said to a group of teen-age Chinese boys on their way to play football in the playground across the street. Receiving blank stares, he said "Happy New Year" to them. They looked at him as if it were October.

The New York Times.

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Pope, Visiting Lyon, Proposes A One-Day Worldwide Truce

By Michael Dobbs
Washington Post Service
LYON — Pope John Paul II has called on warring parties and terrorist groups throughout the world to observe a one-day truce later this month to coincide with an ecumenical peace conference organized by the Roman Catholic Church.

The pope's appeal came Saturday at the start of a four-day visit to eastern France.

About 10,000 policemen were mobilized to protect John Paul in one of the largest security operations ever mounted in France.

Addressing a prayer service in a Roman amphitheater where Gallic Christians were martyred in A.D. 177, the pope called for a "universal cease-fire" Oct. 27.

He said the truce would provide an opportunity for military and political leaders to demonstrate that

"violence does not have the final word in relations between men and between nations."

Oct. 27 has already been designated by the Vatican as an ecumenical "day of prayer for peace." The pope has invited representatives of the world's Christian communities and major religions to the Italian monastery town of Assisi to join in the day of prayer.

Vatican officials said that papal nuncios and other church representatives would try to contact governments and guerrilla groups throughout the world to urge them to participate in the truce.

Upon his arrival at the Lyon airport, the pope expressed horror at the series of bomb attacks in Paris last month that killed 10 persons and injured more than 160.

To strengthen security for the pope's visit and for the Jewish new year celebrations and the World Energy Conference in Cannes, the

government canceled all police leaves for the first time since student upheavals in 1968.

Pontiff's Day in Burgundy

The pope visited an ecumenical Christian monastery and celebrated Sunday Mass in the Burgundy town of Paray-le-Monial, then returned to Lyon to preside over a colorful meeting with French youth in a soccer stadium. The Associated Press reported from Lyon.

In Paray-le-Monial, John Paul returned to his offensive against abortion and divorce, saying that there were signs that modern civilization was developing a "heart of stone."

Addressing a crowd estimated at 100,000, he urged Catholics to work at conserving "a heart of flesh, a heart that has a human sensibility and a heart that lets itself be conquered by the Holy Spirit."



The pope celebrating Mass on Sunday at Paray-le-Monial.

Zulu Leader Says Pretoria Must Accept a Unitary State

JOHANNESBURG — Mangosuthu Buthezi, the Zulu chief and politician, said Sunday that there could be no meaningful talks between blacks and whites unless President Pieter W. Botha accepted that South Africa was one country and must have a single Parliament.

Speaking to thousands of tribesmen in Enseleni, a village in Natal province, Chief Buthezi laid down his toughest conditions yet for taking part in a National Statutory Council that Mr. Botha has proposed to debate a new constitution for South Africa.

Many black leaders have spurned this advisory council. The government considers that Chief Buthezi's participation is essential for its success.

Chief Buthezi, who is regarded as a moderate, said he would not join the council unless it was constituted to negotiate the sharing of power between blacks and whites. At present, South Africa is governed under the system of apartheid, or racial separation, under which the white minority is dominant and the black majority is excluded from central government.

"We can negotiate about the form which democracy should be given in South Africa, but unless the state president accepts that South Africa is one country with one people who will share but one destiny, and must be ruled by one Parliament, meaningful negotiations between black and white will not get off the ground," the chief said.

One recent symposium of Manilla intellectuals called for an end to the two nations' "special relationship," removal of the American bases, declaration of a national language to replace English as the common tongue, mobilizing of American researchers and scholars here and a tighter rein on the pervasive influence of the United States.

through a federation of ethnic and geographic units.

The government has created 10 tribal homelands, four of which have accepted a status that Pretoria calls independent but is not recognized as such outside South Africa.

Chief Buthezi, chief minister of the KwaZulu homeland, has rejected the offer of independence.

South African Goods Held

The New York Times reported from Washington: The Reagan administration has ordered a halt of all South African goods coming to the United States pending clarification by the administration of how to enforce the economic sanctions passed by Congress on Thursday.

POLICY: Disarray After Sanctions

(Continued from page 1)
cies that I think are adding to the chaos and undermining U.S. interests in the region."

Even before the sanctions bill was passed, the credibility of the administration's "constructive engagement" policy was being called into serious question. Both conservatives and liberals seemed to agree the administration's quiet diplomatic tactic had failed.

Already, the Angolan government has stopped cooperating with the administration in its efforts to negotiate the withdrawal of Cuban troops from Angola and independence for South-West Africa, or Namibia, which is administered by South Africa.

In addition, "front-line" black African nations warring South Africa are up in arms over the administration's decision this year to begin aiding the South African-

The sanctions cover both broad categories of South African exports and all products made by companies affiliated with the Pretoria government.

On Friday afternoon, the Treasury Department ordered U.S. customs officials at points of entry nationwide to stop all shipments from South Africa, pending issuance of a list identifying the companies whose products are banned under the legislation.

[Herman W. Nickel ended his four-and-a-half-year posting as ambassador to South Africa on Saturday, saying that the sanctions package enacted by Congress was an "expression of anger" that would not work as policy. Reuters reported from Johannesburg.]

Aquino Welcomes U.S. Aid Vote but Filipinos Question Ties

By Seth Mydans
New York Times Service

MANILA — President Corason C. Aquino has expressed gratitude that the U.S. Senate reversed itself and voted to increase aid to the Philippines by \$200 million.

But the measure's initial defeat early last week was greeted in many quarters with shock and gave impetus to an emerging examination of the country's new relationship to its former colonial master.

With the increased vote Friday, the Philippines would get about \$500 million in overall military and economic aid in the fiscal year 1987, which began last Wednesday, slightly below the \$553 million re-

ceived in 1986. The House approved the increase earlier.

"While I do reiterate my appreciation to both houses of the United States Congress for the aid," Mrs. Aquino said Saturday, "I must also thank the American people who during my recent visit to the United States welcomed me with open arms."

A day earlier, Art Bojiar, a columnist, was calling what then appeared to be the defeat of the aid one of "the saddest chapters in Philippine-American relations."

"People are asking why the United States government has abandoned the Philippines at a time

when help is needed most," he wrote.

But The Manila Chronicle said the Philippines should abandon such "fantasies" of rescue by the United States.

"We should begin to disabuse our minds about the weight of 'special relationships,'" it said in an editorial. "We suggest that, perhaps, in this sort of skepticism we can start our maturity as a sovereign nation."

A symbol of the two nations' relationship is the presence of two huge U.S. military bases, which are seen by many Filipinos as a vestige of colonialism that must be ended

before the nation can feel fully independent.

A commission that is drawing up a new constitution has decreed that any extension of the current agreement that ends in 1991 will require approval by the Philippine Senate.

Mrs. Aquino has stopped speaking hopefully, as she did in the early days of her presidency, of "massive aid" from Washington. Now she insists that the two nations should deal with each other on a more mature basis, as sovereign equals.

Her predecessor, Ferdinand E. Marcos, is now seen by many as having been what is known here as

an "amboy," or American boy, who carried out the wishes of the United States, and turned to America in every crisis.

In special symposiums, in political pronouncements and in the columns of their newspapers, Filipinos these days seem to be seeking a new identity.

One recent symposium of Manila intellectuals called for an end to the two nations' "special relationship," removal of the American bases, declaration of a national language to replace English as the common tongue, mobilizing of American researchers and scholars here and a tighter rein on the pervasive influence of the United States.

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DUTCH: Shield Against the Sea

(Continued from page 1)

launders at the inauguration ceremony on this man-made island that served as a staging area for the project.

"This will end the mythology of the dumb little Dutch boy with his sand in the dike to save his country," said Louis van Geesteren, an Amsterdam sculptor. "Listen, we are a technological people."

It was on this island, once a sand bar, that the concrete piers of the barrier were constructed. Each rose up to 120 feet and weighed 18,000 tons. Engineers found a way to float them, using the principle of buoyancy and a vessel equipped with two gentry cranes to position the piers in water 80 or 90 feet deep.

Before this could be done the sea bottom had to be prepared to re-

ceive them. The sea bed was first dredged, then covered with layers of gravel and sand that were battered by a compacting rig.

Once the seabed was leveled, it was covered with mattresses containing graded rock to absorb the changing water pressure in the subsoil.

The mattresses were then wrapped in a blanket woven of flexible steel that, in turn, was covered by rolls of quarry stone held by wire mesh; all this was done to ensure that the piers would not move by more than an inch or so in the strong currents.

When the piers were in place, their hollow core was filled with sand to ensure stability.

LIGHTS OUT — The moon passed in front of the sun Friday for a total eclipse that lasted four seconds. Because of fog, it was visible only over the Atlantic between Iceland and Greenland.

(Continued from page 1)

sees. As of now, according to the information we have, it confirms what the Soviet have said."

The submarine belongs to what U.S. military officials refer to as the Yankee class. It can fire up to 16 nuclear missiles.

George C. Wilson, the Pentagon correspondent of The Washington Post, quoted U.S. military sources as saying Saturday that 50 of the submarine's 120 crew members had been taken off the vessel.

Soviet officials dispatched several merchant ships to the burning submarine.

A State Department spokesman said that Mikhail S. Gorbachev, the Soviet leader, sent a message to President Ronald Reagan early Saturday that reported the fire and casualties and gave the ship's location.

Mr. Reagan offered U.S. assistance to the Soviet government, the spokesman said, but the offer was declined as unnecessary.

Western diplomats in Moscow said the disclosure was unusual for the Soviet Union, which has been guarded about any accidents, particularly those involving the military.

Some attributed the openness to concern that the event not interfere with preparations for the meeting

SUBMARINE: Fire Is Out

(Continued from page 1)

between Mr. Reagan and Mr. Gorbachev in Iceland that starts Saturday.

A U.S. State Department spokesman said that Mr. Gorbachev's message arrived in Washington at 9:06 A.M. local time.

But the Pentagon apparently had learned of the incident several hours before. A Pentagon spokesman traveling with Defense Secretary Casper W. Weinberger from Washington to China on Saturday said that the "first information came at 4 to 5 A.M. Washington time."

The spokesman did not indicate how the Pentagon learned of the accident.

U.S. submarine specialists in Washington confirmed that the United States knew the submarine was in trouble before Mr. Gorbachev notified Mr. Reagan.

Although they would not disclose who sent the first message about the submarine, it is likely that this came from a navy attack submarine monitoring the Soviet vessel. Monitoring is standard procedure whenever Soviet submarines sail along the U.S. coast.

The United States also has listening devices on the ocean floor that keep track of passing submarines. A fire alarm going off inside the submarine might have been heard by the system, the sources said.

After the fire broke out, apparently in the missile storage area, U.S. sources said, the Soviet commander was unable to bring the fire under control. He took the submarine to the surface, where it was spotted by U.S. satellites.

Both the United States and the Soviet Union have lost nuclear submarines at sea.

The Tass announcement reflected Mr. Gorbachev's campaign for more candor in the Soviet media. In recent months, the Soviet press has reported an airplane hijacking in the Ural Mountains, a shipping accident in the Black Sea and earthquakes in central Asia and Moldavia, providing details that before would never have been officially confirmed.

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NUCLEAR: No Peril Seen

(Continued from page 1)

energy and technology consulting firm in Washington. "It's not a bomb that's bottled up."

"It's not appropriate to talk of nuclear explosions — that, I believe, is not a realistic thing," said A. David Rossin, the U.S. assistant secretary of energy for nuclear energy.

He said it was "entirely possible" that Soviet scientists had learned that there was no danger of explosion or contamination were correct.

It was a chemical explosion of nuclear fuel — not an atomic blast — that occurred in a runaway chain reaction at a nuclear power plant at Chernobyl, in the Soviet Ukraine, on April 26. A large radioactive plume subsequently spread over Soviet territory and much of Europe.

A release of radiation from the Soviet submarine would have occurred only if the ship's reactor core, where enriched plutonium or uranium fuel is stored, had been breached, said Mr. Mills, a physicist.

But in that case, he said, the

GAME 22 QUEEN'S GAMBIT

White Karpov Black Karpov

1. d4 Nf6
2. c4 e5
3. Nf3 exd4
4. Nc3 Be7
5. Bg5 Bb6
6. Bxf6 Bxf6
7. c3 O-O
8. Re1 e6
9. Bb3 Nd7
10. O-O
11. Re4 e5
12. N3 Nd6
13. e4 Nf6
14. Nc4 Nd7
15. Re1 e5
16. a3 Bx6
17. Rxe6+ Qe8
18. Nc7 Nc7
19. Qd4 Bg6
20. N4 Qd8
21. Ne5 Nd5
22. Re1 Nd5
23. Ne3 Qe8
24. Qe5 b4
25. Ne5 Nc6
26. Nxf6+ Nxf6
27. Ne3 Nc5
28. Re4 Qd5
29. Ne5 Qe6
30. Re4 Rb6
31. Re1 Rb7
32. Qd3 Rb6
33. Re4 Qd6
34. Qe5 Q4
(diagram)

At adjournment, after 40 ... Rf2.

Reagan Repeats Appeal to House For Arms Unity

WASHINGTON — President Ronald Reagan has reiterated a warning that arms control restrictions approved by the Democratic-controlled House "could well jeopardize the chances for successful discussions" at his upcoming Saturday and Sunday with Mikhail S. Gorbachev.

Mr. Reagan, in his weekly radio address Saturday, said: "The Soviets must not think that delay could work to their advantage by gaining from the Congress what they cannot win at the negotiating table. I'm asking the Congress to be especially alert about sending the Soviets a message of national unity."

In a Democratic response, Representative Vic Fazio of California said that congressional Democrats "stand behind you, Mr. President" in the talks. But he added that the U.S. economy "is in trouble" and urged Mr. Reagan to accept cuts in defense spending.

"Our omnibus budget bill freezes domestic expenditures and asks only for an equal sacrifice on defense spending after years of buildup," Mr. Fazio said.

The House has approved a ban on nuclear testing and mandated compliance with the ratified 1979 strategic arms limitation treaty. It has also voted cuts in Mr. Reagan's Strategic Defense Initiative.

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CHESSE: Karpov Regains Lead

(Continued from page 1)

and the chess federation scheduled a new match for last fall, this one limited to 24 games.

Mr. Karpov returned a more mature player, and the lead changed three times before he pulled ahead and finally triumphed, 13-11, becoming the youngest world champion in the history of the game.

But the rules laid down by Mr. Campomanes guaranteed Mr. Karpov a return match, and despite Mr. Karpov's protests over the arrangement, the two men squared off once again July 28 at the Park Lane Hotel in London. Mr. Karpov was now 23 and Mr. Kasparov 25.

By the time the 12 games in London were finished, Mr. Karpov was up by one point. In Leningrad, he quickly regained his lead to three. But in the 17th, 18th and 19th games, Mr. Karpov abruptly turned the tide, capitalizing on Mr. Kasparov's excess ambition and errors, to even the score.

"This match has been the most

SUMMIT: Gorbachev's Goal

(Continued from page 1)

the Kremlin had chosen to concentrate on intermediate forces as the key to an eventual strategic, or intercontinental-range missile, agreement with Washington.

Differences on Tests

Gennadi I. Gerasimov, the spokesman for the Soviet Foreign Ministry, said on a U.S. television program Sunday that the best prospect for reaching an agreement in London was in the area of intermediate-range nuclear forces, the Washington Post reported from Washington.

But he added that "the priority No. 1 for us is to agree to stop nuclear tests and to talk about a test ban treaty."

A few intimates later on the same program, Secretary of State George P. Shultz reiterated the U.S. determination to continue testing.

"As long as we rely, as we do, on nuclear weapons as our primary deterrent against war, there will be a need for testing," he said.

Accord on a Site

Iceland announced Sunday that the Soviet Union had accepted its choice of the Hófi, a house on Reykjavik Bay, as the site for the Reagan-Gorbachev meeting. The Associated Press reported.

At the same time, Prime Minister Steinbruggen Hørmannsson announced that Mr. Gorbachev's wife, Raisa, would accompany him to Reykjavik.

French Banking

Low Franc Is Linked To Upswing of Mark

By Ken Ferris

PARIS — The French franc has dropped to record lows against the Deutsche mark less than six months after it was devalued in a major realignment of the European Monetary System (EMS).

The sharp decline owes more to the strength of the West German currency than to a flight out of franc-denominated assets. But it highlights the problems facing a French government that hopes to phase out all remaining exchange controls by the end of this year.

The franc's lousy position at the top of the stack, established after April 7's general realignment, was held only briefly. It slipped steadily toward the bottom of the EMS over the summer and is now the third weakest unit ahead of the Belgian franc and Danish krona.

The irony is that the French economy is in its best shape in decades. July's annual inflation rate of 2 percent was the lowest for 20 years, the budget presented to Parliament on Sept. 15 included an upbeat forecast of 2.8-percent growth in 1987 and the current account of the balance of payments is set to register a 30-billion to 40-billion franc (\$4.54-billion to \$6.06-billion) surplus this year.

The weakness of the franc has prompted the Bank of France to intervene heavily in the foreign exchange markets to defend the currency. Dealers estimate that the central bank sold about 500 million Deutsche marks (\$250 million) against the franc on Sept. 17 as demand for the West German unit pushed it up against all major currencies.

The short-term determining factor for the franc is the Deutsche mark/U.S. dollar relationship, noted J. Paul Horne, chief economist at Smith Barney, Harris Upham in Paris. "If you think the dollar is going to reach 1.75 marks, you can be almost sure there will be an EMS realignment. If you think it will drop out in the 1.50-1.95 range, maybe the Bank of France can hold out. It seems to me that the United States is looking for 1.80-1.85. That implies a devaluation of the franc."

The growing uncertainty about the stability of the EMS is another factor undermining the French currency. The unexpected devaluation

of the Irish pound on Aug. 2 and the recent pressure on the Danish krone have alerted investors to the risk of holding funds in high interest rate EMS currencies.

The weakness of the franc on the cross with the Deutsche mark poses problems for Prime Minister Jacques Chirac's center-right coalition whose radical economic policies demand a stable currency. The government's economic program includes the privatization of state assets, relaxation of exchange and price controls and plans to cut both taxes and the budget deficit.

Concern about the franc's fall below its central EMS parity of 3.2562 to the Deutsche mark was behind Mr. Chirac's recent move to add his voice to those of officials in the United States calling for a West German discount rate cut.

He clearly believes such action would relieve pressure on the weaker EMS currencies as investors switch funds out of Deutsche marks to seek a higher return in other markets. The Bundesbank has so far ignored such demands. Bonn insists that the West German economy is performing well enough without a nudge from lower borrowing costs and that the current level of interest rates is needed to bring money supply growth back within the official 3.5-percent to 5.5-percent target range.

Most analysts expect the franc to hold its parity within the EMS through 1986. But there are clear signs that another devaluation is likely early next year.

"Fundamentally the franc is weak against the Deutsche mark despite the fact that the inflation differential has been sharply reduced to 2-2.5 percent," said Mr. Horne.

"One reason is that the structural inflation gap [the differential between the rate of growth of unit labor costs] is running at about 3-3.5 percent. Another is the substantial difference between the current account surpluses in each country. The turnaround in France is largely due to the oil price collapse, while in Germany there is a much larger surplus on manufactured goods," added Mr. Horne.

Brinsley Best of Best and Associates, a Paris-based advisory service, is also wary of the

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The Paris stock exchange and its Metro station.

Banking Changes Likely to Narrow Profit Margins

By Vivian Lewis

PARIS — All over the world, bank regulators are getting rid of outdated rules. U.S. banks are finally being allowed to cross state borders to buy thrift or banking institutions that otherwise would go bankrupt; West German banks are being allowed to deal at home in a more international fashion, in pools led by foreign banks, in European currency units; British banks and brokers are to be allowed to take control of stock market intermediaries and offer competitive commission rates.

London's Big Bang, with its banking reforms, is an international phenomenon, and in France, too, there have been and will be changes in the rules governing banking. In a world of increasing global competition between financial markets, Paris has had to adjust in order to keep its share of international business. But because the rules of the game have been so different in France, with different constraints and different liberties than in other banking centers, the adjustments being made here are very different, too.

And the changes are likely to weaken French banks in the international struggle for business and profits. Even getting the government out of the banking business in France will probably hurt the French banks.

Among Western industrial countries, France is alone in having an almost wholly state-owned banking sector. The product of a series of politically motivated decisions taken first by General Charles de Gaulle in 1945 and then by President Francois Mitterrand in 1981, the nationalization of French banks is about to be reversed by a similarly politically motivated decision taken by the center-right government that was elected in March.

Although large French banks are among those covering the widest geographic networks, and although French rules governing the opening of foreign-owned branches and subsidiaries are among the fairest in Europe in that they treat foreign applicants for a bank license the same way as indigenous applicants, French banking privatization will break with these liberal traditions and the trend toward the globalization of banking that its own institutions have benefited from. Because of political, the law on denationalization of banks will allow any foreign investor or group of investors from taking more than 20 percent of the stock of a formerly state-owned bank.

The problem is that French banks for the most part are not very attractive under international norms of profitability, capital ratios or return on assets. If foreign investors are required to limit their interest in French banks to taking a portfolio stake that will not give them a chance to manage the French institution, they may balk at investing in French banks at all. They are more likely to just decide to open on their own in Paris, adding to the competition.

Country to free-market theories, then, one result may well be that privatization will be as poorly handled as nationalization was. A recent poll shows that 55 percent of French citizens are not interested in a chance to acquire shares in the institutions to be privatized. Coupled with the denationalization drive are a number of other measures that should make Paris a more attractive banking center. But there are also problems that will make it harder for French banks to reap the benefit, most notably their gross undercapitalization.

So long as they were owned by the government, it was possible for leading French banks to do business on a scale that their meager equity would not have allowed them to perform under private ownership. Recognition of the problem in France has led banks, with regulatory approval, to increase their loan-loss reserves, creating a sort of pseudo equity. But private stockholders are less likely to tolerate this kind of accounting, because it cuts into their prospects for dividends.

And even with the incorporation of newly issued capital from special issues of share-like

instruments on the domestic market and perpetual subordinated loans internationally, most banks are still short of the 5-percent target level of coverage of their assets (ending total) set by the Bank of France nearly a decade ago, even when special rules not always acceptable in the international marketplace are used to artificially increase the volume of their equity. And because of high overheads and diminishing margins, there is not much French banks can do about the problem on their own.

It is no accident that one of the rare French banking groups to have an equity ratio comparable to international norms, Paribas, is to be the first banking group on the denationalization list. Paribas is not just a bank; it is also a financial and industrial holding company, which is a major reason that its equity level is higher than that of its French rivals.

Because the rules have been so different, with different constraints and different liberties, adjustments are very different too.

Although foreign banks are unlikely to find much argument in favor of buying "calling card" (below 5 percent) participations in French rival banks, they are very interested indeed in operating in France. The trouble is that new French and foreign entrants are likely to further squeeze the volume of business and profits of the banks already established here.

By the end of 1986, an estimated 24 new banks are expected to have received their licenses in France, a third of them foreign. Among them is Italy's Istituto Bancario San Paolo di Torino, which opened its doors last month. In addition, twice as many new financial establishments not licensed as banks will get approval from the Bank of France, many as finance houses or *maisons de titres*, a new category of institution created by the 1984 bank reform law and particularly attractive to foreign stock brokers. So far only Japanese firms, Yamachi and Nomura, have created *maisons* but there are currently applicants from the United States, the Netherlands and Britain before the Bank of France.

Becoming a *maison* enables a bank, insurance company or brokerage house from outside France to do almost all investment banking operations without the high capital required for a full banking license as would be required in London, for example. They are allowed to transact, sell or invest in stocks and bonds for themselves or their clients, engage in counterparty operations and gray markets, do fund management and investment, operate on the interbank money market and do arbitraging.

The proliferation of new bank establishment in France reverses the trend of recent years. In 1985, the number of banks licensed to operate in France began to rise again after falling during the early years of the Socialists. The reversal may mark a better political climate in France, notably the liberalization moves of the last Socialist finance minister, Pierre Berégovoy, as well as recovery from the economic

Continued on page 9

Economy Remodels to Spur Investments

By Dinah Louda

PARIS — The economy of France, while it responded only sluggishly to the pro-business reforms of the first six months of Prime Minister Jacques Chirac's government, is being remodeled in fundamental ways that will attract an investment surge and achieve sustained growth by 1988, senior government officials say.

Mr. Chirac's team attributes the slow response to the scope of their version of supply-side economics, designed to reduce the traditionally predominant state role in the French economy.

"I can think of no precedent for liberalization on such a scale as ours," said Finance, Economics and Privatization Minister Edouard Balladur, the main architect of economic policy.

But he recently acknowledged, on French television, moments of frustration at industrialists' reluctance to expand operations and hire more workers. Unemployment, the most politically sensitive issue for the government, remains at an all-time high with 11 percent of the work force, or 2.5 million workers, out of work.

Mr. Balladur predicted that the government's economic program will start to produce effects in mid-1987. Even on the employment front, the economy will begin to create more jobs than it destroys, he said.

Ambroise Roux, former chairman of OGE, the engineering and telecommunications group, agreed. "The government should have some good indicators at the time of the campaign for the 1988 elections," he said. In March 1988, France is scheduled to hold presidential elections.

Highlights Of the Budget

- Expenditures: 1,054 billion francs, up 1.8%. Defense spending grows 5.9%.
- Anticipated deficit: 128.6 billion francs, down 16.7 billion.
- Personal tax cuts: 15 billion francs. Lower marginal rates. Abolition of wealth tax.
- Lower tax on redistributed profits, but cuts in aid to industry.
- Job cuts: Elimination of 19,000 civil service posts.

Foreign businessmen also see signs of basic change. French officials regularly cite the inflow of foreign capital, which Mr. Balladur estimates at 53 billion francs (\$8.03 billion) since the April devaluation within the European Monetary System, as proof of foreign confidence.

"We see and we feel the improvement, and the tempo is quickening," said Wallace R. Baker, a lawyer who advises international investors. But, he added, "It's a long-term change."

The economic and industrial liftoff that Mr.

Chirac promised would come with what he called the "psychological boost" of a conservative victory last March failed to materialize this year. Even in 1987, France's gross national product is expected, on the basis of the latest estimates, to grow by only 2.5 percent, scarcely more than this year (the official estimate is 2.8 percent).

Albert Mezin, chief economist at the Saint Gobain glass and industrial group, said: "The only realistic chance of slightly faster growth, say 3 percent, would be a major spurt in the German economy." West Germany is the biggest buyer of French exports.

Undimmed by slower than expected growth, the government is determined to carry out its four main free market reforms: privatization, deregulation, budgetary restraint and tax cuts. But the very scale of change, and occasional obstruction from Socialist President Francois Mitterrand, has led Mr. Chirac to adopt a gradual approach.

The privatization of 65 industrial and financial groups, most of which were nationalized by the Socialists, represents the most radical break with the Socialist legacy. But only three companies, starting with Saint Gobain, the investment bank Paribas and the insurance group Assurances Generales de France, will be put up for sale in the coming months. Mr. Balladur will pay great attention to the state of the market at the time of sale. There will also be a 20-percent ceiling on foreign share ownership.

Reducing public expenditures is another key element of the program.

"This is the first time since 1958 that state spending will increase less than prices," said Budget Minister Alain Juppé.

The 1987 budget reduces the deficit by about

17 billion francs at the same time as it cuts taxes by 27 billion francs, or 3 percent — a bit less than first promised. Tax measures include the abolition of the Socialist-sponsored wealth tax and a lowering of the highest marginal income tax rate from 65 percent to 58 percent, tax exemptions for lower incomes and 11 billion francs in corporate tax cuts.

In some areas, such as wage deindexation, the lifting of price and exchange controls or the creation of free capital markets, the government is simply extending policies initiated by its Socialist predecessors. Although several further steps have been taken, the complete elimination of exchange controls, scheduled for the end of the year, has been postponed.

"One doesn't change mentalities overnight," said Industry Minister Alain Madelin. But the "cultural revolution" in French attitudes toward business and profit has begun, he said. To promote innovation and risk-taking throughout the economy, "the bond between bureaucrats and industry leaders, sealed by years of state subsidies, must be broken," he added, and markets, not ministers, must decide which companies should survive.

"By restoring investor confidence with our supply-side policies and freeing business from the *dirigiste* straitjacket, we hope to be able to again grow faster than our European neighbors by the end of the decade," Mr. Madelin said. Through the 1960s and until the mid-1970s, the French economy was able to grow about one percentage point faster than the European average and still usually kept the current account in balance.

The key to restoring France's industrial

Continued on page 8

French banking with Banque Indosuez.

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New Issue • September 5, 1986

Paris Exchange

Bourse Woos Small Investor

By Alan Tullier

PARIS — The corbeille, or ring of velvet-topped railings in the middle of the elegant Palais Brongniart, the home of the Paris stock exchange, is to be dismantled soon and replaced by new trading posts.

Already, the corbeille, the very symbol of capitalism in France since it is where only the tightly knit group of 69 official stockbrokers can trade, encompasses three information terminals.

If Finance, Economics and Privatization Minister Edouard Balladur has his way, the Bourse, as the exchange is known, will be opened to millions of new small shareholders.

In general, foreign investors have shown the way to profits on the Paris exchange. Among the late summer orders were those from Japanese institutional investors taking a 6-percent stake in Club Méditerranée.

Mr. Balladur's plans for privatization include a hard core of French companies to be offered to the public. Foreign stakes to be limited to 10 percent initially and, hopefully, the rest to be spread among millions of investors.

This will finally open up the Bourse, a process started by former Finance Minister René Monory in the late 1970s — after the Bourse's low point in 1977 — when he introduced the SICAM unit trusts.

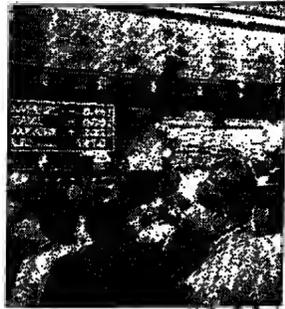
The CAC index reached a record 4125 on Aug. 29, moving Paris to outperform Tokyo, which had risen 47 percent since the start of 1986.

The omens were very favorable for Paris just before the September crisis in the world's exchanges. Some analysts were predicting that the CAC index would go to 500. The most pessimistic among them saw consolidation at 380.

The government's policies on prices, exchange controls, credit and hiring and firing also underpinned the exchange. Half-year profits looked good and Elf-Aquitaine, the oil and chemicals group, which is one of the market's main businesses, announced six-month results of 3.54 billion francs (\$530 million), 17 percent up on the same period of last year.

Wall Street or not, Paris was due for a correction at the beginning of September. To the amazement of all, the market rose for 15 straight days in the normally "dead" month of August.

Despite higher profits and favorable economic gestures from the government, the exchange remained slightly nervous about the internal political scene and whether President François Mitterrand would call a quick presidential election or dissolve Parliament over the



Traders at the Paris Bourse.

theory question of the rightists' redrawing of electoral boundaries.

Meanwhile, on Sept. 10 in a TV appearance, Mr. Balladur gave a favorable report on the economy. He confirmed the policy of "freedoms" in the economic and monetary fields and said the economy would really start benefiting from these freedoms, as well as personal and corporate tax cuts, by the third quarter of next year. It was the sort of confident, long-range forecast an exchange relishes.

The CAC index, which began to slip at the start of September due to profit-taking and political fears, picked up on the eve of Mr. Balladur's TV appearance but then fell back.

The Palais Brongniart has its share of pessimists, but the vote of confidence by foreign buyers, particularly in London, has kept this pessimism at bay. The British, for example, bought heavily into Peugeot, France's largest automobile group and the country's major exporter, in the confident hope that the group's return to profitability, announced in the summer by its chairman, Jacques Calvet, was just a beginning and could increase in the next few years.

Xavier Dupont, head of the Compagnie des Agents de Change, who runs the Bourse, said that all these changes have led to the development of the volume of trading.

Capitalization of shares had risen to 900 billion francs in July, 6.7 percent higher than a year previously. The three-year-old secondary market continued to grow and accounted for 10 percent of total capitalization. There are 102 companies trading in Paris and more than 50 in the provincial exchanges, notably in Lyon. There are even some foreign companies seeking capital in this way.

The government was pleased by this expansion of shares and activity. It showed that the

Bourse was now better equipped to absorb the coming privatization of Saint Gobain, the glass and materials group; Assurances Générales de France, an insurance group, and the Paribas investment bank.

Even before Mr. Balladur confirmed that they would be the first to be sold, his ministry had stressed that the 126-percent jump in new issues and nonvoting shares (certificats d'investissement) in the first half of the year underlined the health of the exchange.

Mr. Dupont does not deny that Paris has copied other exchanges. The Paris secondary market, which has been such a help to small, dynamic companies, was based on London's unlisted securities market (USM), while the Toronto model provided the example for the software and the training for the continuous market.

"We have been empirical to gain time," Mr. Dupont said.

Empirical is also the word to describe the way the CAC has allowed bankers to start trading on the futures market. The CAC, with its 45 member firms, will remain the Big Bang intermediary. Mr. Dupont thinks the Big Bang in London could create a problem in that brokers and bankers may have difficulty finding the right marriage arrangements — or in some cases, marriage partners at all.

Paris, where the volume of transactions in the first six months was 1.12 billion francs, remains a fraction of the size of New York, London or Tokyo, but Mr. Dupont thinks it has an important role to play despite London's pretensions to "cover" the information side of 100 major companies, including 30 major French companies, and therefore assure the trading.

He said: "I think we have a fairly good card here. The West German market is strong but divided. The Italian market has expanded rapidly but perhaps in a disorderly way. Spain is less important. Holland is well managed. I must say, but it was to Paris that Nordica came." The West German computer firm was floated on the Bourse in September.

On privatization Mr. Dupont said: "It could have been fearful five years ago. The situation has changed radically and the public is being offered some very good merchandise with Saint Gobain.

"The Bourse today is a good shop in which to buy. There are some very special French shares that appeal to foreign buyers, like Club Med, the champagne houses, Eco (part-time working), leisure and service companies, industrial companies like Air Liquide."

"The market is healthy enough to handle privatization," he added.

ALAN TULLIER, a journalist based in Paris, is a regular contributor to The Sunday Times of London.

New Financial Instruments

Bank Competition Is Heating Up

By Vivian Lewis

PARIS — Recent changes in French market practices and instruments for borrowing or lending money have led to a scramble among French banks for a competitive edge.

Early this year, to try to match the terms that Triple-A corporations could get on the new French public market for commercial paper, known as *billets de trésorerie*, French commercial banks started to offer loans at particularly low interest rates. Called *crédits spot*, these new-style bank loans are not pegged like other corporate loans to the French equivalent of the prime rate, the bank base rate. Instead, their interest rates follow the rate at which the French banks finance themselves, the money market rate.

For some favored corporate clients, banks even sometimes offer funds at the money market rate without charging any commission at all, offering an *spot au, a "naked spot."* The banks believe they can make money by offering other services to the same client, whose loyalty has been won with such cheap funding.

But besides giving corporate treasurers a new source of cheap loans, the revolutionary changes in French markets are also forcing structural and organizational reforms in the banks themselves, another area of growing competition. Banks better able to use the new markets, and integrate operations between them, can make more money several ways: by better placing their own funds or those of their clients; by selling their services in these new markets to corporations and institutional investors in return for fees and commissions and by arbitraging between markets.

If a bank has the capacity, the computer programs and the personnel for complex maneuvers in a half-dozen markets, the risk-free return from a pure arbitraging transaction can

be huge. Richard Pacault, deputy general manager of Banque Internationale de Placement, France's oldest bank specializing in arbitrage, explained one such transaction.

BIP, which was founded by Société Générale, BNP's Midland Bank and Swiss interests in 1979, began by borrowing 400 million francs early in 1984 on the French financial market, he said. With the money, it bought the gold-indexed French government bonds, the "7 percent of 1973," also known as Giscards, after Valéry Giscard d'Estaing, the finance minister and later president who first issued these instruments.

At the time, the bond, whose principal and interest are based on the price of gold, was yielding 16 percent. BIP then sought to cover its gold risk forward, which it did by selling gold contracts on the Comex in the United States. But this introduced another risk, placing the funds received in dollars to get the best yield, which BIP covered on the U.S. money market. Finally, to cover the exchange risk, the bank used the spot and forward markets to sell dollars for francs.

This complex transaction, Mr. Pacault explained, resulted in a 10-percent margin for BIP with no money at risk right up until 1983, when the Giscards will be called. He went on to explain that "it was only because the market in Giscards is so narrow that we limited our play to 400 million francs; there were days when we bought half the Giscards on the market or when we made half the contracts on the Comex."

Mr. Pacault believes that British and U.S. banks have used analogous techniques to arbitrage across markets using the gold-indexed bond, "but they did it later when the yield on the Giscard was lower."

"Still, it is reassuring to know that our practices are not an aberration, that we are being copied," he said.

The creation of BIP by a group dominated

by Société Générale led to the formation of Natio-Trésorerie by Banque Nationale de Paris the following year. It was followed in 1981 by the creation of Banque Internationale de Gestion et de Trésorerie by Crédit Lyonnais.

The new institutions, called *banques de trésorerie* or *banques du marché*, are the only way large commercial banks in France can bring together services normally scattered in at least three major services: the treasury department, which works on the money market, the financial department, which works on the financial market, and the network that deals with corporate clients.

If the bank has a separate service operating on gold markets or on the new French forward market, the *Marché à Terme des Instruments Financiers (MATIF)*, this further complicates any attempt to do a multibank-covered arbitrage for the bank's own account or that of its clients.

To try to get around the problem, many banks, starting with Indosuez, but followed also by Banque Nationale de Paris, have created combined dealing rooms where operations in both money markets and financial markets, inside and outside France, can be centralized or chained.

But the tendency now, more notably in France than in other banking centers, is for new institutions to be created, like those of the Big Three banks. Since the MATIF was opened late last year, more than a dozen special banks have been created to do multibank arbitrage and/or speculation, by banks like Crédit Agricole, Crédit Commercial de France, Indosuez and Banque Française de Commerce Extérieure.

This is also being done by corporations like Thomson, Davy, Toteil and Cie, Générale d'Electricité, and by insurance companies and other nonbank financial institutions. Often several partners have gotten together to form the new *banques de trésorerie*.

Economy Remodels to Spur Investments

Continued from page 7

competitiveness is a sustained, high level of investment, most officials and businessmen agree.

"For over 10 years, and especially since 1980, France fell way behind its main partners in spending on productive investment," Mr. Balladur said. Although investment began to pick up in 1985, domestic consumption, fueled by windfall oil savings, tax cuts and the repayment of the Socialist government's forced loan, drove the economy in 1985 and 1986.

Official estimates for 1987 are encouraging. Private investment should increase by 5 percent. The government is counting on its free market reforms, rather than on specific incentives, to attract French and foreign investments. Recently adopted tax breaks for new residential construction, however, should give an extra boost to economic activity, even if they channel some funds away from the stock market into real estate.

There are other reasons for optimism. Real interest rates, though still high, have been cut three times since April. Inflation is likely to remain low next year, after a mere 2-percent rise in 1986. "We've done a better job at holding down pay settlements than Mrs. Thatcher," Mr. Roux said, referring to the British prime minister, Margaret Thatcher.

DINAH LOUDA is a Paris correspondent for Business International.



Institutional Lending

Overstaffed Banks Wrestle With Computer Age

By Vivian Lewis

PARIS—French banks are geared up to do a volume of business that they can no longer attract. Passbook deposits are shrinking as a proportion of household savings. Loan volumes, particularly of the most attractive large and solvent corporate borrowers, are declining. Withdrawals and other transactions increasingly are automated.

Too many people trained to handle paper transactions are still working in banks in the electronic age. Bankers' estimate French overstaffing levels at 10 percent or more.

In banking—and not just in France—it is not the thing to talk about firing people. But the newly appointed chairman of Crédit du Nord told his employees last spring that some of their jobs would be eliminated.

Bruno de Maulde, who broke the taboo at Crédit du Nord, in fact was not as brave as it appeared, since his predecessor had already worked out how the grid would be shared with workers' representatives at the bank. And Crédit du Nord, the retail banking arm of the powerful Paribas investment house, has had some special problems in recent years linked to poor real estate investments. It also suffers from the fact that, as its name indicates, its network is strongest in the troubled northern smoke-stack area of France.

But the layoffs at Crédit du Nord may mark a trend. Significantly, Mr. de Maulde got bipartisan support in the aftermath of the furor. The Socialist chairman of Crédit Lyonnais at the time, Jean de Flasseux, who has since been replaced, indicated that overstaffing levels at his bank were running at 10 percent. And the government of Jacques Chirac gave Mr. de Maulde's plan a vote of confidence by reappointing him.

A major reason that French banks have superfluous personnel is that many of the paper-pushing jobs they need to do are handled by computer. The national system of cash dispensers linked to the Visa network means that many French people for months at a time no longer need to line up at a teller's booth. In 1984, the last year for which figures are available, automated cash withdrawals accounted for 32.6 billion francs (\$4.9 billion), three times the level in 1981 and 10 times the level in 1977.

About half of French banks' spending before profits still goes for wage payments, even though many banks have frozen hiring for some years. According to the French Bankers' Association, at the close of 1983 more than a quarter of a million Frenchmen were employed by its member banks, a 1.5-percent increase from the 1982 close of year. More recent figures are not available.

Meanwhile, the profits French banks can earn from their traditional business of taking deposits and lending money are lagging, according to the

1985 report of the French Banking Commission. What with slow growth, a sharp decline in inflation levels, an easing in loan demand and repayment problems with French and foreign private and sovereign borrowers, French banking margins declined slightly in 1985, the commission reported. Banking margins are the difference between what deposits or funds cost a bank and what it gets for lending money.

The current decline in margins adds to a long-standing problem with French banking profitability. French profit levels are low by international standards. Last year, leading French banks earned pretax profits of 0.41 percent of their banking assets, while the U.S. ratio was 0.89 percent, Japan's 0.44 percent, West Germany's 0.50 percent and Britain's 1.13 percent. Of all the countries in the world surveyed by The Banker, a British publication, in July, only Iran, South Korea, Austria and Belgium had lower returns on assets.

Banks are getting less deposits proportionately and lending out less. One reason is that French households are saving less overall, and what they save is no longer simply placed in a bank passbook. In 1985, French gross household savings fell to 12.3 percent of revenues, down from 13.5 percent in 1984 and 14.4 percent in 1983. Household savings include life insurance, stock market investments and mortgage payments.

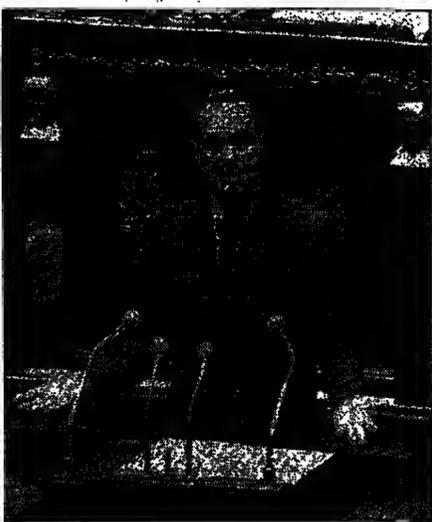
The share of their revenues that French families put into banks savings fell even more sharply, to 4

percent in 1985, compared with 5.1 percent in 1984 and 5.4 percent in 1983. This contrasts with the 1970s, when households saved over 17 percent of their revenues on average and put 6 percent of the total in the bank.

At the same time, lucrative bank lending to corporations is also declining because companies have other sources of funds: higher profits (due in part to tax cuts) and direct tapping of the market. The debt of corporations to financial institutions last year came to 4.5 percent of corporate gross margins, down from 5.8 percent in 1984 and 7.5 percent in 1983.

With money-lending profits under pressure, French banks are trying to develop new sorts of business, above all to earn fees and commissions. And they are trying to develop their business as financial counselors to households and individuals. The trouble is that it is hard to imagine retraining the older tellers to act as investment advisers or treasury specialists.

One banking expert, Olivier Pastor of the University of Paris, recently wrote that "the social problem [in its entirety] today is one of the principal brakes on modernization of banks" in France. Until a new government with a taste for market solutions was elected in March, bank employees, like other salaried workers, felt they had a lifetime employment contract. But the new French mood is to stop carrying money-losing enterprises merely in order to guarantee their employees' jobs.



Prime Minister Jacques Chirac.

Bank Changes Likely to Reduce Profits

Continued from page 7

It also reflects the creation of new specialized arbitrage banks. As of the close of 1985, there were 214 banks controlled by French interests operating in France, and 143 controlled by foreign interests.

The Bérégovoy reforms are a hard act to follow. In the course of his stewardship as finance minister, a half dozen new markets were created, handling everything from securities to French government bonds to securitized mortgages to French corporate commercial paper. As a result of the reforms, banks—and other institutions, like interbank money brokers, finance houses, maisons de titres and arbitrage banks—found new opportunities in Paris. Foreign institutions were more expedient with options, commercial paper and securitized mortgages, and some of them were able to win an edge against the big French banks.

The reaction did not take long. Large French banks set up specialized subsidiaries, or tried to remove the old barriers between banking divisions that hampered their effective use of the new instruments and markets. It is hard for a bank organized traditionally with a treasury department working on the money market and a financial department working on the financial markets and a separate section in its network dealing with corporate clients to effectively deal in commercial paper, where the risk is corporate and the term is short. French banks hurt themselves further by offering short-term bank finance in an effort to compete with the commercial-paper market.

Now banks are trying to tailor their structure to the new opportunities. One tactic is to create a separate team to function on the Marché à Terme des Instruments Financiers (MATIF), the financial futures market. Other banks have sought to integrate different divisions or departments. The latest trend in Paris banks is centralized dealing rooms operating in money and financial and exchange markets simultaneously (some banks have even brought in some commodity trading, in gold). This enables easy mounting of swaps, hedging of risk, arbitrage and even some speculation. The first to do so was Indosuez, followed by Crédit Commercial de France.

The removal of barriers is widespread and is referred to as "decompartmentalization." But France has a system of universal banking so, theoretically, there are no legal obstacles to institutions operating on the leading market moving to the financial market. French banks may hedge between deposit-taking and placing or taking funds from the long-term bond market and the short-term interbank market and the futures market without hindrance. And there is no barrier: A French bank can act as underwriter for, lender to and investor (for funds it manages) in the same company. So there seem to be fewer restrictions to be removed here than in the United States, Britain or Japan.

The obstacles to operating efficiently in a multitude of markets, many of which are new to them, have largely been the result of the banks' own hierarchies and organization. Liberalization and deregulation have increased the pressure on banks to reform and streamline their internal structures.

The French authorities are planning further liberalization moves that will increase the pressures for change. French exchange controls, already pretty tenuous, are slated to be lifted entirely, some time before the end of the year.

Then, too, the young but flourishing financial futures market (MATIF) is going to be allowed to offer contracts on new instruments: options on Treasury bond futures this year, and Euro-yen and Euro-dollar contracts and a stock index option linked to the Paris Bourse next year. Another planned deregulatory move is expected to go forward, ending the disservice noninterest-bearing deposits banks have to make with the central bank if their lending exceeds a fixed ceiling based on the lending they did in the previous period. This complicated procedure, set up to control the money supply, has hindered French bank expansion for nearly two decades. It is due to be replaced by an open-market money supply control system similar to that run by the Federal Reserve in the United States.

These changes will affect the way banks are organized in France and how they compete. Ironically enough, given that in some countries the banks are clamoring to be allowed to operate as "universal banks" on the French or German model, the trend here is likely to be in the reverse direction, toward increasing specialization, on the types of market, customer, savings or lending vehicle.

VIVIAN LEWIS, a Paris-based financial journalist, is a regular contributor to The Banker and the International Organizations Monitoring Service.

Compagnie Bancaire

Increase of the consolidated net income for the first half of 1986

	first half 1986		year to date	
	FF million	change/first half 1985	7/1/85-6/30/86	FF/share
Compagnie Bancaire Group				
• Consolidated net operating income	664.7	+ 27 %	1,198.4	
- outside stockholders' interest	305.9	+ 30 %	542.6	
- Compagnie Bancaire	358.8	+ 24 %	655.8	56
• Consolidated net income	727.5	+ 24 %	1,327.1	
- outside stockholders' interest	308.0	+ 31 %	560.9	
- Compagnie Bancaire	419.5	+ 20 %	766.2	65
Main Companies of the Group				
Consolidated net operating income				
• UFB - LOCABAIL	155.5	+ 38 %	235.5	55
• CETELEM	184.0	+ 21 %	315.4	83
• UCB	187.0	+ 17 %	294.6	42
• LOCABAIL IMMOBILIER (financial income)	84.7	+ 2 %	159.6	64
• SINVIM	7.4	n.s.	16.2	13
• CARDIF	43.2	+ 76 %	67.0	53
Compagnie Bancaire Group	FF billion			
• New business	21.8	+ 13 %		
• Outstanding loans and leases (as of June 30, 1986)	109.2	+ 10 %		

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October 1986

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BNP GROUP HIGHLIGHTS

for the six months ended June 30, 1986 (unaudited)

(in millions of French Francs and US dollars)	1986		% half year 1986/1985
	1st half year FRF	USD	
Net income			
Including minority interests	1,405	202	+ 41.5
Excluding minority interests	1,331	191	+ 42.0
Stockholders' equity and Perpetual Bonds	23,337	3,348	+ 48.1
Stockholders' equity and Perpetual Bonds adjusted (1)	26,822	3,848	+ 70.0
"Primary capital"	48,700	6,987	
Loans to customers	380,000	54,519	
Number of offices (in France and 76 countries)	2,397		

(1) The adjusted figure reflects the issue of US\$ 500 million of Primary Capital (unaudited) floating rate notes (perpetual bonds) in August 1986. This has been included at the exchange rate prevailing on June 30, 1986.

1 USD = 6.97 FRF at June 30, 1986.

BANQUE NATIONALE DE PARIS
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Smart Cards and Minitel

Electronic Banking Brings Shake-Up, Innovations

By Dinah Londa

PARIS — Last month, private-account holders at the Crédit Commercial de France (CCF) began conversing with their bankers electronically from their homes as easily as if they were meeting at the bank's head office on the Champs-Élysées.

With this innovation in French banking technology, customers and their bankers will be able to leave and receive messages for one another via electronic mail.

A nearly overdrawn account holder will even be able to delay a regularly scheduled monthly payment for a few days after an unexpectedly expensive weekend trip, or manage a revolving credit line. Companies will have even more exciting new opportunities: for example, to do all their financial transfers and transactions from their office.

For CCF's 140,000 clients who already bank electronically, the new system is a major breakthrough. Until now, the CCF service, which had been provided free since it began in 1983, was passive in the sense that users could mainly look at their banking statements and check the value of their investment portfolios by calling up the information on their screens of Minitel, the government-promoted videotex that brings data via phone lines to home screens and keyboards.

"The start of interactive electronic banking can destabilize the banking system creatively, forcing usually stuffy bankers to become more innovative in inventing new products and services to beat the competition for customers," said René Riffard, director of CCF's Videobank.

The CCF will charge for the new service. French banking is the nation's leading sector in computerization. "Banking is far ahead of industry and the service sector generally in adopting new technology, such as automatic cash tellers, microchip credit cards or even PCs," said Jean-René Lyon, head of computer research at Crédit du Nord.

"We've installed 4,000 PCs for 9,000 employees and are aiming for one per person in the next two years. We're ahead because we were lagging behind and jumped a generation of technology to catch up; but the other, larger French banks are moving in the same direction," he added.

Electronics and other high technologies are both the cause and the cure for a long-overdue shake-up of France's bloated banking system. Many bankers see technology as the cure of their attempt to reorganize in order to survive in a more open, global environment.

During the boom years of the 1960s, France developed some of the world's largest banks, most of which liberally opened hundreds of branches all over France and abroad. Overstaffed and undercapitalized, the whole sector is going to suffer many casualties as competition takes its toll, French banking officials say.

"Electronic banking from home will make it unnecessary for banks to maintain branches on every street corner and free banking staff to concentrate on their real business: providing high-quality services such as individual asset management and portfolio investments," said Philippe Schweitzer of the Crédit du Nord.

Pierre Barberis, director-general of the same bank, added: "In a major change, French bankers have realized in the last few years that banking is a service industry and technology is part of the service."

Traditionally, French banks, like most of their



A couple checks their CCF bank account through their home Minitel.



In the heart of CCF's home banking system.

European competition, have been able to make steady profits with their traditional business of taking long-term deposits and earning high interest on their depositors' money. That profitable setup is under pressure, partly from the competitive challenge of regulatory moves in the United States, Britain and, increasingly, Japan.

"Banks in France have been making money by playing on float time," said Edouard de Lenoussing of CCF, referring to delays during transfers when banks are able to lend money being processed for a few days at high overnight money rates. "With the spread of new electronic payment techniques, this will no longer be possible, so banks will have to invent new ways of pricing."

"So far there has not been any truth in pricing or real competition based on value for money for customers. Now banks will start charging people for checks and other services they didn't pay for before, and stop charging them — for example, by delays in processing their payment — for things they didn't realize they were paying," Mr. de Lenoussing said. He added: "Psychologically, it's going to be a hard change to sell."

But the change is inevitable, especially as denationalization of French banks and the inroads of foreign ones intensify competition for depositors and other customers, most bankers agree.

At the heart of this switch to a service concept of banking is new technology — or rather technologies, mainly the smart card and the Minitel system. These customer facilities are the counterpart for private customers of the introduction of heavy-duty, data-processing equipment for rapid, complex currency trading in the banks' backrooms.

The smart card — a new kind of plastic credit card that incorporates a microchip to make it tamperproof, opening the way to interactive remote banking — has the psychological impact of helping drive the French to use credit cards instead of relying, as they have done even to buy movie tickets, on their checkbooks.

"France lags way behind other nations in using credit cards, and we're leaving the gap by introducing

the most advanced technology, the smart card," said Jean-François Guthmann, a Treasury official.

The smart card is being actively promoted by the French government as a universal credit card. Some day it will even be used instead of coins in phone booths for local calls. Electronic credit cards will save banks the cost of processing billions of checks; and bankers say its main advantage ultimately may be its greater protection against an expected surge in credit card fraud.

"Everyone agrees that the protection against fraud far outweighs the investment costs of installing the new smart card network," said Sophie Taohi of the Banques Populaires association, which has helped launch the country's first smart card network in Rennes, in western France.

It will cost more than one billion francs (\$150 million) to install the card machines and electronic recognition terminals in the country. This is a big investment for banks that already see their profits dwindling. To cope with the cost, French banks have imposed a condition of making all banks participate before any one starts — and gets a potential lead.

Although some experts, notably Mr. Riffard of CCF, believe that one can protect electronic transactions in other, cheaper ways, the French commitment to the microchip card is irreversible.

But the smart card's arrival has intensified competition, allowing retailers to shop between banks (since the cards are all compatible) and to force down commissions.

"The challenge will be for innovative French banks to develop new services with the card that cement customer loyalty, like customized charge plates, and create new sources of revenue," said Miss Taohi.

The other most spectacular technological innovation in French banks' consumer services is Minitel. Of the nearly two million Minitels installed free by the PIT, the government-run postal authority, 300,000 are regularly used for banking transactions.

"With our 2,000 Minitels, I was able to consolidate and distribute stock market data throughout our network 10 times faster and 100 times cheaper than I could if I had to operate in a country where

the government did not provide these terminals," said Louis-Noël Joly, technology manager at the Société Générale.

Other bankers also have evidence of how Minitel helps them rationalize their data flows, even if, in the longer term, "banks will integrate Minitel's function into their computer terminals," as Crédit du Nord's Mr. Lyon suggested.

But many French banks agree that Minitel has enabled them to offer their customers sophisticated new services cheaply. For very complex financial transactions involving large companies, it may not be ideal.

"Our clients have sophisticated microcomputers and want sophisticated services. Minitel is not for them. It's fine for private use, but it's not a tool for professionals," said Geoffroy de Tilly-Blaru, deputy director of Financière Saint-Honoré, a subsidiary of the Compagnie Financière, which has taken a lead in electronic cash management techniques for an upmarket clientele.

Nonetheless, Minitel-based financial services are booming. In sheer numbers, most Minitel terminals in banking use are employed by individual depositors consulting — and now operating — their own accounts. But the most profitable part of the Minitel revolution in French banking concerns corporate accounts, including products designed especially for treasurers.

"We have the profits to show for it," said Christian Maigne at Crédit du Nord.

The debate over short-term profits is still open among French banks, but the decisive role of innovative technology seems beyond dispute.

For several years, the French people have been demanding that the banks cut the price of banking services, said Mr. Barberis. Technology is part of the answer, despite the heavy investments that will weigh on banks' balance sheets for the foreseeable future.

"But the choice is made," he said, adding that the banks must now concentrate on delivering the services that the French expect from their high-tech banks.

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- USINOR GROUP
- VALLOURCIS
- VICTOIRE GROUP

Decline in Franc

Continued from page 7

impact of inflation on the franc. Low inflation is still a hangover from the oil price fall and domestic price controls. Once these technical effects have worn off, prices will rise again and that will build up pressure for higher wage increases," he said.

"I think the franc will hold its parity until the inflationary factor surfaces towards the end of the year. But the removal of exchange controls means there really won't be anything in the administrative arsenal to protect it," he added.

Finance, Economics and Privatization Minister Edouard Balladur announced last week in Nancy that France will ease its exchange controls within the next

few weeks, allowing residents to hold foreign currency accounts. However, banks will not be allowed to lend francs to nonresidents, although this could occur "at the right time," he said.

There is pressure for devaluing.

The latest liberalization measures follow the already extensive relaxation carried out since April's EMS reshuffle. Paris has abolished the requirement that companies should repatriate foreign exchange earnings within 15 days, forward cover (previously limited to the European currency unit) is now available for all currencies, and firms no longer need approval to invest abroad.

The *devises libres*, or foreign exchange premium, on the acquisition of foreign stocks by French residents has also been removed, while exporters can now retain foreign exchange receipts for three months instead of one.

The removal of exchange controls is in line with principles laid down by the European Community on the free movement of capital within the community.

France no longer has to seek exemption from EC capital regulations for the first time since 1968. It remains to be seen whether the franc can stand up to a sustained speculative attack without the protection of a panoply of exchange controls. The 5.8-percent devaluation against the Deutsche mark in April's EMS realignment was less than the 8 percent that Mr. Balladur wanted.

It also fell far short of the French-German inflation differential of 12.8 percentage points built up since the last major reshuffle in March 1983. Thus, pressure for a devaluation to boost the competitiveness of French exports in Europe has already been stoked up.

That adds to the problems posed by the underlying weakness of the trade account (it registered a 2.4-billion franc deficit in January to August despite the benefits of lower oil prices) and will foster renewed speculation of another franc devaluation in the first half of 1987.

The government will need to use all its powers of persuasion to convince the electorate that a downgrading of the franc is beyond its control.

KEN FERRIS is the editor of *Barron's Treasury Report*.

CARREFOUR

Consolidated income for the 6-months period ending June 30, 1986 (IN MILLIONS OF FRENCH FRANCS)

	6 months ended June 30, 1985	6 months ended June 30, 1986	%	86/85
Sales	20,292	23,174		+ 14.2
Group share of net income	202	310		+ 53.5

PERSPECTIVES FOR 1986

The increase in income at June 30, 1986 will not be repeated in the second half of the year for which we anticipate:

- A sustained level of activity.
- A strong competitive environment.
- A decrease in the income from our investment companies.

Therefore for the whole year 1986 we expect income to increase by approximately 20%.



HALF YEAR RESULTS

1986 Half Year Highlights (in F.Fr. Millions)	First Half 1986	First Half 1985	% Change	% Change at constant foreign exchange parity
Turnover	1,685	1,627	+0.5	+10.6
Operating income	179	189	-5.3	+3.1
Profit after tax	116	116	—	+8.6
Net cash flow	197	185	+6.6	+15.7

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- In the first six months of 1986, Essilor Group turnover grew by over 10% (excluding impact of foreign exchange translation), as our accelerated investment program began to bear fruit.
- The Group again improved or consolidated its already strong positions on most markets.
- As forecast, profitability remained satisfactory, with net profit/turnover at June 30, 1986 stable at around 7%.

AND CONTINUED STRONG INVESTMENT ...

- 1984-1986 Group Investment has totaled one thousand million French Francs, mainly aimed at automating installations and modernizing equipment.
- Other investments include the acquisition of controlling interest in Angénieux, the leading French manufacturer of zoom lenses and wide aperture optics, in Domellens, an emerging French manufacturer of intra-ocular lenses, and in Sudop, our former Brazilian distributor.

PROVIDE THE GROUP WITH ATTRACTIVE PROSPECTS FOR THE FUTURE.

- Outlook for the second half is promising on most markets, as Essilor's added value more than compensates for currently sluggish market conditions.
- In the short term, we will hold our chartered course for sustained growth. After allowance for currency translation, this should lead to moderate increases in turnover and stable after tax profit.

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Table with 2 columns: Item, Price. Includes items like Agribusiness, Chemicals, etc.

EUROBONDS

Rising U.S. Jobless Rate Was Good News for Some

By CARL GEWIRTZ International Herald Tribune

PARIS — Bond markets got a shot in the arm last week with news that the U.S. jobless rate rose last month. Such signs of sluggishness encourage the view that interest rates are bound to decline further.

But whether this is enough to get investors off the sidelines and into a buying mood remains to be seen.

Investors are jittery. They are unsure how durable any decline in dollar interest rates can be, either because of fears that the dollar could crash in the foreign-exchange market or that the easy money policy must ultimately kindle a quicker pace of inflation.

The mood of mistrust was not helped by the inconclusive results of last week's gathering of finance ministers at the International Monetary Fund and World Bank annual meetings in Washington.

The inability to articulate a coordinated policy aimed at assuring a steady pace of international economic expansion while accommodating a reduction in the gaping U.S. trade deficit raises the specter of go-it-alone policies and ugly economic consequences.

Sowing additional confusion was the coordinated intervention in European foreign-exchange markets, driving rates up against the dollar in tandem with the appreciation of the Deutsche mark. In effect, this lowers the pressure for a unilateral DM revaluation. As all the currencies appreciate against the dollar, there is relative stability within the European monetary system.

SUCH CURRENCY appreciation does help keep down the reported levels of domestic price inflation. But many analysts say they are astounded that France and Italy, as well as Britain, which is outside the EMS, would expend their reserves this way. In effect, they are pricing their own manufactured goods out of world export markets, further slowing their own economic growth rates, while enabling West Germany to reap all the benefits.

The best measure of just how uneasy all this makes investors feel was the increasing supply of gold-related paper coming on offer in the international capital market and the enthusiastic reception.

There were two such offerings last week. Toronto-based Barrick Resources, one of the top 10 gold producers in North America, offered \$30 million of bonds convertible into gold and within hours lead manager Banque Paribas Capital Markets Ltd. was able to increase the amount to \$50 million. The five-year paper carries an annual coupon of 5 1/2 percent.

Gold itself is a sterile investment, producing no income and expensive to keep because of storage and insurance costs, which explains the popularity of interest-bearing bonds convertible into the metal.

Anytime after the first year, holders of the Barrick paper can convert the securities into gold, or the cash equivalent. The price, to be fixed late Wednesday, is expected to be set at 22 percent over the average London afternoon gold fixing over the five days ending Oct. 8.

If the gold price fails to rise sufficiently to make that conversion profitable, investors can hold the bonds until maturity when paper nominally valued at \$1,000 will be redeemed at a premium of \$1,112.50. That bonus payment would be equivalent to having earned an annual income of 7 1/4 percent, or about what an investor would earn if the money had been used to buy an ordinary fixed-coupon Eurodollar bond.

Despite the increase in the size of the offering, the paper ended the week quoted at only a slight discount of 99 1/2 from the expected par subscription price.

The other gold-linked offering is an equity issue, an initial public offering worth about 22 million Canadian dollars in Getty Resources Ltd. Half the stock is being distributed in North America and the remainder internationally under the aegis of S.G. Warburg.

Getty Resources, created over the summer, holds the Canadian mineral properties of Getty Oil, Texaco, which acquired Getty last year for \$10 billion, is spinning off the nonoil Canadian properties. There are 39 properties in all, in various stages of development, and the largest is the Tisdale gold project, which is expected to start producing gold by mid-1987.

On sale are four million units, each of which comprises one Getty Resources common share and two warrants to buy one See EUROBONDS, Page 13

An increasing supply of gold-related paper is getting a good reception.

Tokyo, Bonn Cite Progress

Bank Talks Aim To Open Markets

Agence France-Press

WASHINGTON — High-level West German and Japanese finance ministry and central bank officials said Sunday that they made good progress in weekend talks concerning improved access for West German banks in Japan's financial markets.

The talks, conducted by Hans Tietmeyer, West German state secretary for finance, and Toyoo Gyohken, Japanese vice finance minister for international affairs, covered participation by West German banks in securities trading on the Tokyo market and other disputed technical areas, including banks' access to local refinancing.

Mr. Gyohken made it clear the two countries were still far apart on a number of issues, particularly over Tokyo's demand that Japanese banks be allowed to act as lead managers in foreign-bond issues denominated in Deutsche marks.

West German authorities have said they will give the go-ahead for this only when adequate "reciprocity" has been achieved.

This would involve the licensing of all seven West German banks that have so far voiced interest in participating in the Tokyo securities market.

"We are not happy about the German insistence that the lead management problem cannot be solved until the notion of reciprocity is established," Mr. Gyohken conceded.

He said that with two leading institutions, Deutsche Bank AG and Dresdner Bank AG, already licensed and a third bank, Deutsche Genossenschafts-Hypothekbank AG, about to receive its license, the Japanese side felt there was a sufficient basis for reciprocity and agreement on the lead-management question.

Four other West German banks are interested in tapping the Japanese market and are in various stages of negotiations with the Japanese authorities.

They are Commerzbank AG, Westdeutsche Landesbank AG, Badische Vereinsbank AG and BHF bank.

Mr. Tietmeyer said, nevertheless, that there had been "clear progress" on these issues.

Mr. Gyohken said he was hoping for a satisfactory agreement before too long.

The two junior ministers and their aides, in Washington for the annual meetings last week of the International Monetary Fund and the World Bank, also reviewed other problems related to bilateral banking operations.

Mr. Tietmeyer said he was looking forward to early liberalization of the Japanese deposit market.

He said foreign banks in Japan had been complaining about problems arising in local refinancing. Since interest rates were regulated for about 90 percent of Japanese deposits, to which foreign banks did not have access, domestic banks obtained funds at a lower cost than their foreign competitors.



A Hyundai Motor Co. assembly line.

Hyundai Is a Pronounced Success

By John Holusha New York Times Service

DETROIT — When officials of Hyundai Motor America were preparing to introduce their automobiles into the U.S. market earlier this year, one question they grappled with was the pronunciation of the name.

To make things easy for customers, they adopted an English sound that rhymed with the days of the week, as in "Sunday, Monday, Hyundai," rather different from the way Koreans say it.

As things have turned out, even if some Americans may not know how to pronounce the name, they have been buying the Hyundai Excel by the thousands.

The year's sharp increase relative to the dollar, which pushed up the price of Japanese cars, helped make the Hyundai the single biggest-selling import model in August.

More than 100,000 Exceles

have been sold in the United States since the introduction late in February, and sales in August were 20,689.

Hyundai officials estimate that sales will total more than 150,000 by the end of the year, 50 percent over their own initial predictions and by far the best performance for a first-time import.

The Excel is a subcompact, front-wheel-drive, four-cylinder economy car similar in appearance to the lowest-priced Japanese cars.

Consumer Reports magazine describes it as "quite an up-to-date little car." Its list price for the Excel's three versions, two-door and four-door hatchbacks and a four-door sedan, range from \$4,995 to \$6,445.

Analysts attribute the car's success to its improving price advantage over Japanese makes and the confidence that Ameri-

can car buyers seem to have in Asian quality.

And while the Hyundai has had good reviews for its performance, "the Koreans are piggy-backing on the quality reputation of the Japanese," said Ronald A. Gantz, an analyst with Montgomery Securities.

"As the Japanese cars have gotten more expensive," he said "a lot of people have decided that anything cheaper that's built in Asia is better than anything built in the United States."

Hyundai officials said earlier this year that their strategy would be to price the Excel slightly below comparable Japanese cars.

But as the yen has gained strength against the dollar, the Japanese companies have raised their prices, while Hyundai held See HYUNDAI, Page 17

Higher Quotas Urged by Saudis As OPEC Meets

Compiled by Our Staff From Dispatches

GENEVA — A call for higher oil production quotas is likely to dominate a round of OPEC talks opening here Monday, the Saudi oil minister said Sunday.

Analysts said the meeting was likely to be acrimonious, but that the result was difficult to forecast.

The Saudi minister, Ahmed Zaki Yamani, was here for a round of informal preparatory talks ahead of the OPEC conference, its fifth of the year aimed at restraining production and raising prices.

Sheikh Yamani said the issue of quotas, which has troubled the Organization of Petroleum Exporting Countries for years, would be at the center of the formal talks.

"Everyone wants a higher quota," Sheikh Yamani asserted. He said that included Saudi Arabia, the group's biggest producer, with a quota of 4.3 million barrels a day.

Kuwait also indicated that it wanted a higher quota, a stance that most Gulf producers are expected to support.

But other nations do not share that position. Algeria, Iran, Venezuela and the United Arab Emirates have said the current production limits should be extended to year's end.

And the Libyan oil minister, Fawzi Shakshuki, said the group should reduce overall output by at least one million barrels a day, in order to raise prices substantially.

Doubts about the chances of an extension of the OPEC restraints, which were agreed on at the group's last session early in August, contributed to a drop in oil prices by 50 cents a barrel at the close of trading Friday in New York.

Oil analysts there said the calls by some OPEC states for larger quotas and the allegations that

some members were cheating on quotas also depressed prices.

Trade sources say that the United Arab Emirates is overproducing and that Venezuela and Libya are producing at quota but are also selling from stocks.

The OPEC countries agreed in August to limit total output to 16.8 million barrels a day in September and October. That agreement helped raise prices from less than \$9 a barrel to about \$15.

The Indonesian energy minister, Mr. Subroto, said here Saturday that OPEC would "continue efforts to firm up the market, and we won't do anything to undo the achievements we have made so far."

He has said that the group could consider a higher ceiling for the remainder of the year as the onset of winter in the Northern Hemisphere raises the demand for oil. (Reuters, UPI)

Paris Is Pleased With Elf Issue

Reuters

PARIS — The French government is pleased with the response to its sale of shares in Elf Aquitaine, the state oil group, senior Finance Ministry officials said over the weekend.

Hundreds of thousands of small investors have applied to buy the equity, which was on offer through banks and brokers at a fixed price of 305 francs (\$46) a share until Friday, they said.

The state is reducing its stake in Elf to just over 50 percent from its previous stake of 64.4 percent through the share sale and a capital increase.

Mexico Rescue Thrusts World Bank Into a Debt-Crisis Role

By James L. Rowe Jr. Washington Post Service

WASHINGTON — The \$12-billion rescue package of Mexico that key commercial banks agreed to last week thrusts the World Bank into a prominent role in the Latin American debt crisis.

It is a role that the U.S. Treasury secretary, James A. Baker 3d, proposed last year, when he unveiled his plan to help hard-pressed debtors grow while continuing to pay off their foreign loans.

The Mexican rescue package, a joint effort by official institutions and private banks, is being cited as the first test of the Baker plan.

But it is a package conceived in an emergency. Declining oil prices drained Mexican resources so fast that the nation threatened to suspend paying interest on some or all of its \$98 billion in foreign debts.

"It is a plan to solve another short-run crisis, but undoubtedly will become the blueprint for a Baker initiative that is aimed at longer-run, deep-structural problems," a top bank official said.

Mr. Baker called last year on commercial banks and development institutions to help rekindle

growth in debtor countries by sharply increasing their lending, thus increasing the resources the countries have to invest, import vital products and still pay their debts. The debtors, in return, were supposed to change economic policies that have slowed their growth.

The Mexico agreement, crafted by the International Monetary Fund in July and yet to be formally approved by the 500 banks that are lenders to Mexico, contains several precedents envisioned in the Baker initiative.

• Mexico agreed to wide-ranging economic reforms, including gradually opening up its inefficient domestic industries to the discipline of foreign competition; joining the General Agreement on Tariffs and Trade, the organization that regulates global commerce; and selling off state-owned enterprises.

• The commercial banks decided to lend Mexico \$6 billion by the end of next year — nearly one-third of the \$20 billion Mr. Baker wants banks to lend to all debtors by the end of 1988.

• The World Bank agreed to make nearly \$2 billion in loans to Mexico by the end of next year — a

disbursement pace far faster than the bank normally achieves.

• The package focuses on the need for Mexico to grow, and provides an additional \$2.3 billion in "contingent" loans from the banks and the IMF if economic growth in Mexico does not improve fast enough or if other economic conditions, not yet specified, deteriorate.

Several bankers said privately they worry Mexico will not be able to use properly the \$12-billion infusion — that it will bolster the political popularity of President Miguel de la Madrid without leading to badly needed reforms.

William R. Cline of the Institute for International Economics said that the \$12 billion will not even replace the \$16 billion Mexico will lose this year and next because of the fall in oil prices.

The Mexican rescue effort, however, also suggests that official institutions, or at least a worried U.S. government, are willing to shoulder an increasing amount of the burden of keeping Mexico solvent after years of arguing that most of the responsibility rested with the debtors and their bank lenders.

Though more than 70 percent of Mexico's debts are to private commercial banks, half the \$12 billion in the rescue package comes from official sources: the World Bank, the IMF and governments of industrialized nations.

To entice commercial banks to lend as much money as the IMF said they should, the World Bank agreed to guarantee repayment of at least \$500 million of the bank loans and as much as \$750 million.

"It's a total cave-in to the banks," said a leading multinational financial official.

But others said the guarantees are an indication that governments are beginning to believe they will

have to pay more of the costs of keeping debtor economies afloat.

The World Bank president, Barber Conable, apparently worried about setting an unhealthy precedent, said the bank does not "expect to give guarantees routinely."

But the banks made some concessions that will help Mexico and shape the terms other debtors will demand: The banks lowered their profit margin on \$43.8 billion of outstanding loans from an average of 1 1/2 percent points to 1-3/16 percent points. They also agreed to let Mexico repay the outstanding \$43.8 billion in loans over 20 years.

Viking Resources International N.V. N.A.V. of 30-9-86 \$34.57

Table with columns: Bid, Ask. Includes Bitter Corp, GoodMark Foods, MAG Holdings, Mr Gosket, Spectrodyne.

Last Week's Markets

All figures are as of close of trading Friday

Table with columns: Stock Indices, Money Rates, Currency Rates. Includes DJ Index, FT 30, Nikkei 225, etc.

Currency Rates

Table with columns: Cross Rates, Oct 3. Includes Australia, France, Germany, etc.

Other Dollar Values

Table with columns: Currency per U.S. dollar, Oct 3. Includes Argentina, Brazil, Canada, etc.

To Our Readers

Beginning today, the Monday International Bonds section is being consolidated and redesigned for easier reference. Among the changes is a new "Eurobonds at a Glance" table, which today can be found on Page 16.

New Norwegian Budget Aims To Cut Consumer Spending

Reuters

OSLO — The Norwegian government has proposed tough measures to curb consumer spending in its 1987 budget unveiled over the weekend.

Finance Minister Gunnar Berge said Sunday that falling oil prices had damaged Norway's economy but that growth in credit-backed consumer spending had unbalanced the national economy.

The Labor government of Prime Minister Gro Harlem Brundtland faces possible defeat on the budget from a center-right coalition that ruled Norway from 1983 until May this year. Parliament is due to vote on the budget later this month.

Mr. Berge said Norway's current account deficit would widen to 43 billion kroner (\$5.87 billion) in 1987, its worst level in 10 years, compared with a 25.6-billion-kroner surplus in 1985. The current

account measures trade in goods and services as well as interest, dividends and certain transfers.

"It is time for Norwegians to face economic reality," Mr. Berge said. "We cannot rely on rising oil prices solving the problems in our foreign economy."

Mr. Berge announced cuts in industry subsidies and a doubling of foreign borrowing to 15 billion kroner in 1987.

An accord reached before Labor took power to cut the working week by 2 1/2 hours had weakened Norwegian industry's competitiveness, he said.

Consumer spending, fueled by easy bank loans, grew by more than 8 percent last year and showed no signs of easing, Mr. Berge said.

He proposed a complex tax reform package to close a loophole allowing high wage earners to pay virtually no tax.

Elof Hansson THE GLOBE TRADER. The international trading house active in pulp, paper, machinery, chemicals, timber, building material, textiles, foodstuffs, steel, consumer goods.

L'OREAL. The consolidated sales of L'OREAL and its French and foreign subsidiaries amounted to 3.333 billion francs in the first half of 1986.

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New Eurobond Issues

Compiled by Laurence Desvillettes from information supplied by European bond traders.

Table with columns: Issuer, Amount (millions), Mat., Coup. %, Price and week, Terms. Rows include Floating Rate Notes (Citibank, Citicorp, etc.) and Equity-Linked issues (Ebara, ICN Pharmaceuticals, etc.).

Bond Prices Rise Sharply On Job Data

By Kenneth N. Gilpin, New York Times Service

NEW YORK — Bond prices have posted strong gains, propelled by a U.S. government report showing an unexpected drop in employment last month.

U.S. CREDIT MARKETS

rose to 7 percent last month, from 6.8 percent in August, was taken by traders as a sign that inflation would remain quiescent.

Frankfurt

The Frankfurt stock exchange turned in a strong performance last week, with the Commerzbank index rising 24.8 points to 2,009.9.

Milan

Shares inched forward in Milan last week as investors generally kept on the sidelines because of negative indications from abroad.

Hong Kong

The Hang Seng Index put on 100 points last week amid a persistent bull run on the Hong Kong stock market that pushed the index to five successive record highs and a close Friday of 2,034.36.

Amsterdam

The sale, for more than 1.4 billion Hong Kong dollars (\$179.4 million) was confirmed Thursday.

London

The uncertain outlook for the pound and interest rates continued to dampen enthusiasm on the London Stock Exchange last week.

Paris

The Paris Bourse, reflecting the caution that has lately characterized investors, was stable last week, with the CAC index moving from 386.4 the previous Friday to 384.9.

Tokyo

Share prices plummeted on the Tokyo stock market last week despite the start of a new business year for securities firms last Wednesday.

Zurich

Prices registered a modest gain on the Zurich stock exchange last week, with the Credit Suisse index moving from 516 the previous Friday to 523.6.

Singapore

The stock market lost ground in Singapore last week as dealers reacted to the Promet group going into receivership and to continued bearish sentiment from Malaysia.

Singapore (continued)

The Straits Times Industrial Index lost 5.79 points over the week to 816.15. Average daily turnover dropped to 15.3 million units.

Singapore (continued)

Block buying on behalf of U.S. and European investors partly countered losses by midweek.

Singapore (continued)

But analysts said Malaysian stocks were likely to come under selling pressure should there be further adverse developments.

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EUROBONDS: U.S. Jobless Rate Was Good News

(Continued from first finance page)

additional share. The package is to be priced Monday, and is expected to be made on Oct. 21. The shares will be quoted on the Toronto Stock Exchange and Warburg will make a market in the shares in London.

Also coming up on the Euro-equity market (not related to gold) is 15 percent of the shares being sold in Commercial Credit Co. This finance company is being spun off by Control Data, which will continue to hold 20 percent of the stock.

In all, 38 million shares are being sold, mostly in North America. Credit Suisse First Boston, which is arranging the international sale of 5.7 million shares, estimated the offering price to be set next month will be in the range of \$21-\$24.

In the bond market, only one of last week's issues could be called a success, IBM World Trade's \$150 million of seven-year notes carrying a coupon of 7 1/2 percent. They were priced at 100 1/4 yield, at the time of launch, 59 basis points, or just over half a percentage point,

more than comparably dated U.S. Treasury paper.

The uniton reaction was that this was a reasonable spread for an issuer whose name is magic with investors. According to data collected by Credit Suisse First Boston, Eurodollar bonds with a five-year life last week traded at 75 basis points over the Treasury curve, while 10-year Eurodollar bonds were at 86 basis points over the curve.

The IBM notes ended the week at 99, a modest discount and comfortably inside the 1 1/2-percent commission paid to underwriters, a rare event these days. The proceeds of the issue were swapped into French francs, but lead manager Banque Nationale de Paris gave no indication how much IBM saved by raising francs this way instead of through a direct issue in that currency.

The European Coal and Steel Community's three-year issue of \$75 million of 7-percent notes was priced at 101 to yield 44 basis points over the Treasury curve and ended the week trading at a discount just about equal to the fees paid to underwriters.

But there was not much demand

for the other issues, particularly those with a maturity longer than five years.

TVO, a Finnish power company, sold 300 million French francs of extendable bonds. The paper bears a coupon of 8 1/2 percent for the first five years, at which point holders can request redemption or the issuer can set a new coupon. The process gets repeated in 1996. Lead manager Credit Commercial de France said the terms attracted domestic investors.

At the moment, there is not much foreign demand. A widening disparity between short-term domestic money costs and those on Eurodollar deposits signals that there is speculation on a devaluation of the franc against the Deutsche mark in the European monetary system. The domestic cost of one-month money is 7 7/16 percent, compared to 9 1/2 percent on Eurofrancs. Under normal conditions there would be no more than 1/4-point difference between the two rates.

The continued strength of the mark against the dollar, which dipped below the important barrier of 2 DM on Friday, found little resonance in the DM-bond market. Denmark's 750 million DM of five-year notes priced at par with a coupon of 5 1/2 percent fared better than its companion 250 million DM of seven-year, 6 1/2-percent bonds.

The currency speculation is not spilling into the bond market, bankers say, because the DM liquidity is being placed in short-term bank deposits that carry no capital risk.

Nor was there any rush to buy the Euroyen bonds. Norway's big 60-billion yen issue fared better than Procter & Gamble's 20-billion issue because of the shorter five-year maturity and investors' preference for sovereign names. BNP's dual currency yen-New Zealand dollar issue was essentially a private placement designed for a specific Far East investor.

The plummeting of prices on the Tokyo Stock Exchange and the continued reports that foreign investors have switched from net buyers to net sellers of Japanese stocks have not stopped the flow of Eurobonds with warrants to buy Japanese shares. But bankers lament that there is no demand, and the issues all traded at substantial discounts last week.

The exception was a convertible bond for Tokai Bank. Convertibles over the long haul have proved very profitable for investors and in this case, with Tokai trying to make a name for itself in the international market, it is assumed that the bank will not allow its bond to be an exception. Its \$100 million of 15-year bonds, expected to carry a coupon of 2 3/4 percent, ended the week at 101.

One surprise last week was the paucity of floating rate notes: Only one small \$100-million issue was launched. Analysts at Salomon Brothers suspect the market is fatigued from the \$17-billion worth of dollar floaters launched during the third quarter, a record three-month volume. During that period borrowing rates were pushed down to the London interbank bid rate and lower, too low for the taste of many investors.

EUROPEAN COMMUNITY

Japan Trade Unresolved

By Steven J. Dryden, International Herald Tribune

BRUSSELS — Mixed results in the latest trade talks between the European Community and Japan could prod the EC to take action against Tokyo in the General Agreement on Tariffs and Trade, according to community officials.

The EC Council of Ministers will decide later this month whether to ask for the creation of a GATT panel to consider the issue of Japanese barriers to European alcoholic beverage imports.

The issue was one of two trade problems discussed in Tokyo last week by Japanese officials and EC representatives. American and Canadian officials also took part in the talks on liquor imports, which were part of a multilateral consultation process under GATT, a negotiating body for world trade.

The Japanese said that as part of

a reform of their fiscal laws next spring, action could be taken on heavy taxes that penalize European wine and liquor imports.

Community officials said that while they were pleased that Japan had dropped its previous opposition to reforming the alcoholic beverage tax, it remained unclear how the tax regulations would be changed.

In addition, the Japanese were unable to promise immediate action on the claims of better safety that Japanese ski manufacturers make for their products.

The manufacturers say that snow conditions in their country require skis specially made for Japanese slopes.

The claim has angered European ski makers, whose products, along with European alcoholic beverages, are among the few foreign consumer items with competitive appeal in the Japanese market.

Agreement on Textiles Made With Hong Kong

The community has concluded a new textile agreement with Hong Kong after three months of difficult negotiations.

Hong Kong won increases of up to 1 percent for "sensitive" exports to the EC, which include blouses, shirts, pullovers, T-shirts and cotton and synthetic threads.

Hamish MacLeod, the chief Hong Kong trade negotiator, said the agreement was not all he hoped for but a step in the right direction. He attributed the concessions to recognition of Hong Kong's liberal policy toward imports.

The value of Hong Kong's shipments of clothing and textiles to the community is larger than any other community supplier, exceeding 2 billion European currency units (\$1.9 billion) in 1985.

Further Cuts in Quotas For Milk Are Possible

Frans Andriessen, the EC agricultural commissioner, has indicated that he may propose additional reductions in milk quotas to control the community's huge dairy surplus.

After an informal meeting of EC agriculture ministers, he said that the quota system adopted in 1984 was insufficient and that cuts approved for this year and 1986 might need to be supplemented.

Farm ministers agreed earlier this year to implement a 2-percent reduction in the milk quotas in April 1987 and a 1-percent cut in April 1988.

At the end of the summer, EC figures showed a record 1.35 million tons of surplus butter in storage, and 988 million tons of powdered milk.

WORLD STOCKS IN REVIEW / Via Agence France-Press

Amsterdam

Stock prices fell early in the week in Amsterdam but recovered slightly in response to scattered bargain hunting, stockbrokers Kempen & Co. said.

In a basically trendless market, the financial sector weakened, with the insurance firm Agon reaching new lows for the year on rumors of losses in the United States.

Kempen said that in coming weeks it may be difficult for the market to generate much momentum. But as the Dutch economy appears especially sound, long-term prospects for Dutch stocks are nevertheless favorable, particularly those in consumer-related businesses, the company said.

The ANP-CBS General Index last week moved from 279 to 280 on Friday, after dropping to 274.6 and 276.4 on Monday and Tuesday.

Total turnover stood at 3,964 billion guilders, against 4,047 billion the previous week.

Frankfurt

The Frankfurt stock exchange turned in a strong performance last week, with the Commerzbank index rising 24.8 points to 2,009.9.

The volume of transactions reached 2.152 billion Deutsche marks from Sept. 29 to last Friday, up from 1.982 billion the previous week.

Nidderf, in the electronics section, announced a capital expansion offer on Friday, sending share prices up 12.50 DM to 736, an increase of 30 for the week as a whole.

Gains among automobile companies varied from 15 DM for BMW and 16 for Daimler to 21 for Volkswagen.

Milan

Shares inched forward in Milan last week as investors generally kept on the sidelines because of negative indications from abroad.

Volume was sharply lower, with 153 million shares traded against the previous week's 235 million. The value of shares traded totaled 940 billion lire.

The COMIT index gained a slim 0.34 points after irregular progress through the week to close Friday at 750.74.

Montedison shares ended the week with a 1.49-percent gain, thanks to an 8.9-percent jump Friday, partly on news that the group's president, Marco Schimberni, had walked out of a meeting with insurance company Fondiaria.

Mr. Schimberni has clashed with several Montedison shareholders, including the Mediobanca group, over a bid to take over Fondiaria.

London

The uncertain outlook for the pound and interest rates continued to dampen enthusiasm on the London Stock Exchange last week.

The Financial Times Industrial Share Index closed down 4.4 points on the week at 1,234. But the volume of transactions rose from 99,862 to 108,086.

Government stocks, or gilts, remained dull as the pound established new lows against a basket of currencies, despite persistent intervention by the central bank.

Gold mines, in contrast, saw a late rally as the bullion price soared to its highest level for four years on fears that South Africa might retaliate against U.S. sanctions by restricting exports of precious or rare metals.

Among companies reporting last week, cement makers Rugby Portland Cement and Overseas Traders Inchcape turned in better-than-expected half-yearly profits.

In its monthly economic bulletin, Lloyd's Bank forecast a "bloodbath" after deregulation on Oct. 27 that is known as the "Big Bang," with some financial institutions being severely hurt or disappearing.

Singapore

The stock market lost ground in Singapore last week as dealers reacted to the Promet group going into receivership and to continued bearish sentiment from Malaysia.

The Straits Times Industrial Index lost 5.79 points over the week to 816.15. Average daily turnover dropped to 15.3 million units, worth 31.8 million dollars, from the previous week's 15.9 million units, worth 32.7 million dollars.

The Promet news and further poor results from Malaysian company were exacerbated by the mid-year interim report of Singapore's national shipping line, NOL, which posted its worst-ever pre-tax loss of 40.9 million Singapore dollars.

Block buying on behalf of U.S. and European investors partly countered losses by midweek.

But analysts said Malaysian stocks were likely to come under selling pressure should there be further adverse developments.

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Max Hebr, Senior Vice President, Regional Manager, with Eric Tschirren, Senior Vice President, Branch Manager.

Swiss Bank Corporation reveals a closely guarded professional secret:

Even if it works, ask why.

Many of our customers have something in common besides their choice of international bank. They've learned how to learn from their successes, the way everybody else learns from mistakes. The reasons why something goes right are just as important as the reasons why something goes wrong, and may be even more rewarding (and elusive). When nothing succeeds like success, it's because nothing works like work. Incidentally, when our customers keep coming back to us, we do know why. And so do they. We're one of their professional secrets.



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Limias Zürich SBV 1886

International Bond Prices

Amort	Security	% Mat	Yield	Price	Yield	Price
Amort	Security	% Mat	Yield	Price	Yield	Price
70 1/2	Switzerland	100%	5.18	100.00	5.18	100.00
70 1/2	Switzerland	100%	5.18	100.00	5.18	100.00
70 1/2	Switzerland	100%	5.18	100.00	5.18	100.00

NASDAQ National List

OTC consolidated trading for week ended Friday, Oct. 3

Sales In	100s	High	Low	Last	Chg	Net
AA Imp	13	100.00	99.75	99.75	-	-
AA Imp	13	100.00	99.75	99.75	-	-
AA Imp	13	100.00	99.75	99.75	-	-

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SALOMON INC

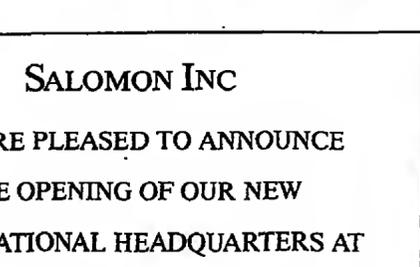
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MAIN NUMBER	721-2000	EQUITY SALES & TRADING	721-3566	MORTGAGE FINANCE	721-3808
TELEFAX	886441	FLOATING RATE NOTES/		MORTGAGE SALES	721-3134
FACSIMILE	222-7062	MONEY MARKETS	721-3185	NON-DOLLAR SALES	721-3145
CAPITAL MARKET SERVICES	721-3665	FOREIGN EXCHANGE	721-3370	SETTLEMENTS	721-2015
CORPORATION COVERAGE	721-3165	GILT SALES	721-3365	SYNDICATE	
CORPORATE FINANCE	721-3855	GOVERNMENT SALES	721-3282	FIXED INCOME	721-3625
	721-3110	FIXED INCOME SALES	721-3145	EQUITY	721-5500

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NASDAQ National Market

OTC Consolidated trading for week-ended Friday, Oct. 3

Table with columns: Sales, High, Low, Close, Net Change. Lists various OTC stocks and their trading data.

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COMPARISON CHART table comparing Business Week, Forbes, and Fortune across various metrics like circulation, target audience, and readership.



BusinessWeek logo and contact information for advertising.

American Exchange Options

Table of American Exchange Options with columns for Option & price, Calls, and Puts. Includes various stock options and their prices.

Nigeria Alters Exchange Rules

LAGOS — Nigeria's central bank has announced important modifications to its week-old foreign-exchange scheme...

At Thursday's auction, the naira fell from 4.6, the rate obtained at the first auction last Friday, to 5.05 naira to the dollar...

The new rules lower the proportion of dollars for which most banks can bid to 3 percent from 7 percent...

Irish and Crédit National Facilities Oversubscribed

By Carl Gewirtz International Herald Tribune

PARIS — Both France's Crédit National and Ireland may regret not having accepted the lower financing terms proposed to them for the credit facilities they currently are arranging on the international credit market.

The lowest proposals had been rejected out of fear that too many banks would balk at the low cost and that subsequent syndication among a wide range of international banks would prove difficult.

"They both wanted a success and they got it," was the way bankers described the situation. But as both facilities are now oversubscribed, it is apparent that they could comfortably have opted for the lower charges.

"One day it will have to stop,"

said Roediger von Eisenhart-Roth, managing director of Chase Manhattan Ltd., which is organizing the Irish credit. "The only question," he added, "is when" banks will signal that the decline in loan charges has gone too far.

Mr. von Eisenhart said that "there is an undercurrent of uneasiness about today's terms make sense. But at the moment, it's clear they can still go lower."

Ireland is expected to use the opportunity to increase its facility

INTERNATIONAL CREDIT

from the planned \$400 million. It is paying banks an annual fee of four basis points, or .04 percent, for the first two years and five basis points during the final eight years for selling short-term notes or providing loans.

To draw on the bank line, the cost to Ireland will be the London interbank offered rate, or Libor, if no more than 25 percent is used. If Ireland draws more, it will pay 7/8 basis points over Libor for up to 75 percent and 1 1/2 basis points over Libor for more than that.

Managers of the Crédit National facility said they were amazed at how quickly it was syndicated but doubted that the credit agency would want an increase. It is paying an evenly split four and five basis points for a 10-year, \$300-million line.

Drawing charges range from Libor flat for up to 25 percent of the amount, Libor plus five basis points for up to 60 percent and Libor plus 10 basis points if more than that is drawn.

Just how far banks are willing to go on their charges should be indicated this week. The Bank of New Zealand is expected to seek a \$200-million, five-year facility against which it intends to issue short-term securities. Banks will be asked to underwrite only \$100 million. The

annual facility fee is expected to be a record low 3.125 basis points — (there have been lower facility fees, but on shorter maturities).

The drawing cost will be Libor flat for up to \$50 million and Libor plus three basis points for the final \$50 million.

Despite the signs that banks are liquid and hungry for assets, syndication of the \$300-million loan for India's Oil and Natural Gas Commission is reported to be moving slowly. The terms, a record low for India — 3/4 point over Libor for the first three years and 3/4 point over Libor for the final seven years — are meeting resistance. India is raising an additional \$200 million through a tax-spared loan.

Cyprus will tap the market this week for a \$100-million, eight-year tax-spared loan. Thanks to the tax treaties Cyprus has with Britain, France, West Germany and Japan, banks in those countries will be able to use the credit to reduce their domestic tax liabilities. But few Japanese banks are expected to participate. For Cyprus, it means a tremendous cost saving — it will pay a thin two basis points over Libor for the money.

Following the example set by the Greeks, the central bank of Turkey has arranged a \$50-million, two-year loan and sold banks a one-year option to convert this into Deutsche marks. Like Greece, Turkey is paying 3/4 point over Libor for the funds. But thanks to increased speculation about an appreciation of the Deutsche mark it was able to sell the option for more than the Greeks. Turkey's actual cost of borrowing will be 1/4 point below Libor, lead manager PRIVATbank reports. The cost to Greece was 1/4 point over Libor.

Turkey, which this year has raised an estimated \$1.5 billion in the market, is raising \$300 million in a joint operation with the U.S. Export-Import Bank. Half the amount is guaranteed by the Ex-Im Bank and on this portion interest is

set at 3/4 point over Libor for 14 years. The Turkish-guaranteed portion runs for seven years and interest on half the amount is set at 1/4 point over the prime rate and half at 1 1/4 points over Libor.

From the United States, Arizona Public Services is seeking a \$225-million facility. Of this, \$125 million is a five-year credit on which it will pay 1/2-point over Libor or 6 1/2 basis points over the reserve-adjusted rate on certificates of deposit. The remaining \$100 million is a three-year loan on which interest is set at 1/4 point over Libor.

Amoco Netherlands Petroleum is seeking a \$90-million, eight-year loan the drawings of which are linked to oil and gas prices and the company's production from two oil fields and one gas field. The price, set every six months, will determine the amount that may be drawn.

For the first three years the transaction is a revolving credit carrying a margin of 1/4 point over Libor; in the final five years it becomes a term loan with interest set at 3/4 point over Libor.

Bendro, the Spanish hydroelectric utility, is renegotiating terms on \$113 million of outstanding debt. The amount is to be rolled over into a new 10-year loan on which interest will be set at 1 1/2 basis points over Libor. Banks will be paid a renegotiation fee of five basis points.

This week, United Airlines will tap the Euro market for a \$750-million facility that will be used to replace an existing domestic line of credit. The new facility will enable UAL to issue short-term notes or commercial paper.

The Australian Wheat Board has revamped its approach to the short-term market by canceling two Euro-note programs totaling \$750 million and enlarging its Euro-CP program to \$600 million. Dealers in the new program are Citicorp, County NatWest Capital Markets, CSFB, Salomon Brothers, Sandi International Bank and SBCL.

Talks on Rubber Opening Today

Agence France-Presse

GENEVA — Leading rubber producers and consumers meet here Monday under the auspices of the United Nations Conference on Trade and Development to draw up a new international trade agreement.

Talks in May failed to produce an accord.

The producers — Malaysia, Indonesia, Nigeria, Ivory Coast, Papua New Guinea, Sri Lanka and Thailand — had asked for a 27-percent increase in the buffer-stock price. The main consumers, the European Community, the United States, Japan, China and the Soviet Union, rejected the demand.

HYUNDAI: Pronounced Success

(Continued from first finance page) steady. This has widened the price gap.

A 1987 Excel GL four-door hatchback, for instance, now lists for \$1,000 to \$1,500 less than similarly equipped Japanese models, even after a 3.9-percent price increase for the 1987 model year.

"Our price position is very attractive relative to our competition," said Jack Collins, marketing director for Hyundai Motor America.

"But price isn't everything," he said. "Look at Yugo. They're \$1,000 less than anything we have, but they sell about 2,000 a month while we're selling over 20,000 a month."

Auto enthusiast magazines and other reviewers of automobiles have rated the Hyundai cars as more up-to-date technically and a

better value than the Yugo, which is imported from Yugoslavia.

While Hyundai's advantage over Japanese car makers is likely to continue as long as the yen remains strong, it will soon be facing more competition in the \$5,000 to \$6,500 segment of the market, much of it from its home country.

The Pontiac division of General Motors is expected to introduce a model next year manufactured by Daewoo of South Korea, even though it will bear the familiar LeMans label.

Ford Motor Co. is planning to import a small model, called the Fiesta, from Kia Industries, another South Korean company.

Competition from other low-wage countries is likely as well. Volkswagen AG, for example, will bring in the Fox, manufactured in Brazil.

NASDAQ National Market

OTC Consolidated trading for week ended Friday.

Table with columns: Sales in 100s, High, Low, Close, Net Change. Lists various stock symbols and their performance.

Herald Tribune logo and a small article snippet titled 'Summit Leaders Vow to Push for an Economic Recovery'.

2 for 1

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Subscription form with checkboxes for 12, 6, or 3 months, and a table of rates for various countries.

Form for signature, card account number, name, address, city, and country.

Large advertisement for Agip oil. Features a dark background with a large Agip logo and the slogan 'Wherever it is, we'll find it.' Includes a testimonial about Agip's reliability and a list of countries where Agip is used.

OIL. Wherever it is, we'll find it. Oil is the primary source of energy. It is the power that moves the world and will be so for many years to come. But it is necessary to be prepared to wrestle this treasure from the earth's most secret strongholds, using the latest continuously evolving technology, and to venture into hostile, inaccessible places. Agip, Italy's national oil company, took up this challenge sixty years ago, probing into the origins of the earth, experimenting with new techniques, and devoting to these activities human and economic resources that are always up to the difficulties to be overcome. Whenever the possibilities of finding oil exist, Agip is present with its spirit of initiative and decades of experience. The results achieved, alone or in cooperation with leading oil companies, in 30 countries, on 5 continents, make Agip a reliable operator in any oil activity. Even where no-one has ever reached.



SPORTS

Righetti Gives Yankees Unequaled Relief

BOSTON — Dave Righetti set a major-league record with his 45th and 46th saves of the season Saturday as the New York Yankees swept a doubleheader from the Boston Red Sox, 5-3 and 3-1.

With saves in three consecutive games against Boston's American League East champions, Righetti broke the record of 45 set by Kansas City's Dan Quisenberry in 1983 and equaled by St. Louis's Bruce Sutter in 1984.

New York's Don Mattingly went 3-for-5 in the opener Saturday, and homered in five times at bat in the nightcap, leaving him with a .351 average. With one game left, Mattingly trails Boston's Wade Boggs by six points in the race for the AL batting title.

Righetti tied the record by blanking the Red Sox for 1 1/2 innings in preserving the 5-3 victory for starter Bob Tewksbury in the first game.

New York's manager, Lon Piniella, then fulfilled a promise to try to get the record for his bullpen ace. With two out and the bases loaded in the ninth inning of the second game, Piniella leaped from the dugout and signaled for Righetti.

Dave Sax popped up a 2-2 pitch and second baseman Willie Randolph made an easy catch to give Righetti the record.

"I feel super," Righetti said afterward. "I was hoping the phone in the bullpen would ring so I could get up and throw. I just had to be careful not to trip on a hole on the way out."

Twins 7, White Sox 3: In Minneapolis, Greg Gagne hit two inside-field homers for Minnesota to tie a major-league record for a single game.

SATURDAY BASEBALL

Several players had done it previously. Chicago's John Candelaria set a record with his 50th stolen base, topping the AL rookie mark set by Rollie Ficker of the White Sox in 1910.

Angels 2, Rangers 0: In Arlington, Texas, John Candelaria and Vern Riffe combined on a two-hitter and Brian Downing drove in both runs for California. Edwin Correa took the loss despite allowing only two hits. He walked six, three of them in the second inning when the Angels got both of their hits and both of their runs, on Downing's double. The runs were the first Correa had allowed after 25 1/2 scoreless innings.

Indians 6, Mariners 5: In Cleveland, Julio Franco homered, doubled and singled and Joe Carter drove in his AL-leading 120th run to send Seattle to its eighth consecutive loss. The losing pitcher, Mark Langston, struck out nine and raised his season total to 245, taking over the league lead from Roger Clemens of Boston.

Royals 2, A's 0: In Oakland, California, Mark Gubicza and Bud Black combined on a five-hitter for Kansas City.

Tigers 11, Orioles 4: In Baltimore, Mike Heath and Kirk Gibson hit three-run homers in the second inning for Detroit.

Reds 10, Padres 7: In the National League, in Cincinnati, Tony Perez hit the 379th home run of his career, a solo shot, to tie Orlando Cepeda's major-league mark for homers by a Latin American player. Kevin McReynolds hit a grand slam for San Diego, but Cincinnati overcame that as Barry Larkin drove in four runs, Eric Davis hit a two-run homer and Dave Parker homered with the bases empty. Perez, 44, was to retire after the Red's final game Sunday.

Mets 6, Pirates 1: In New York, the Mets swept a doubleheader from Pittsburgh to reach 107 victories for the season, one shy of the divisional mark set by the 1975 Red.

Dodgers 2, Giants 1: In Los Angeles, Fernando Valenzuela ended his best season with a five-hitter, and Steve Sax and Ralph Bryant hit run-scoring singles. Valenzuela, 21-11, struck out seven to set a career high for strikeouts in a season, 242; he is second in the NL to Houston's Mike Scott. It was Valenzuela's 20th complete game; he leads the majors.

Astros 3, Braves 2: In Houston, left-hander Jim Debuszke became the first Astros rookie to win 12 games in a season. He worked five scoreless innings.

Cubs 8, Cardinals 7: In Chicago, Brian Dwyer and Rafael Palmeiro drove in two runs against St. Louis.

Phil Niekro's Steal Was Not for Real

CLEVELAND — Phil Niekro, the 47-year-old pitcher who has won 311 games in the major leagues, added another accomplishment to his illustrious career Saturday. The Cleveland Indians knuckleballer stole his first base — a literal steal that will, however, not count in the record books.

The Indians were leading Seattle, 5-2, and batting in the bottom of the eighth inning when Jay Bell stepped out of the batter's box. Suddenly Niekro, in uniform and wearing a red mask over his face like a mask, burst out of Cleveland's dugout beside first base.

Niekro ran toward second base and dove head first into the bag. He looked up at umpire Vic Voltaggio, who gave a safe signal, then pulled the bag out of the ground, and Niekro sprinted to the dugout, holding the base, as the crowd of 11,991 cheered.

Niekro did not play in the game, which Cleveland won, 6-5.

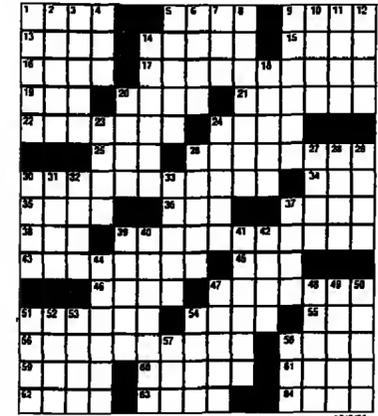
The Indians third baseman, Brook Jacoby, said, "we had it set up starting in the seventh inning that if somebody got on base, the batter would steal a little to let Jacoby get out there."

Seaver Out of Playoffs: The Red Sox announced Saturday that Tom Seaver would not be included in their playoff roster because of a strained right knee he suffered Sept. 19, the Los Angeles Times reported from Boston.

The 41-year-old Seaver said he would continue to take therapy and attempt to pitch on the sidelines in the hope that he would be ready for the World Series, if the Red Sox qualify. The playoff roster can be amended for the World Series.

Al Nipper will start Game 4 of the playoff against the California Angels, if the Red Sox are ahead 3-0 or 2-1. Roger Clemens could pitch on three days' rest if the Red Sox trail, manager John McNamara said.

Clemens removed any doubt about his starting for Boston in Tuesday night's opening game of the playoffs by throwing without pain for 20 minutes in the bullpen.



- ACROSS: 1 Maxims, 5 Antioxidants, 9 Workplace watchdog, 13 Old Testament book, 14 "Get lost!", 15 Chicken house, 16 And others: Lat. abbr., 17 Cocktail orders, 19 Got together, 20 Railroad or bus chaser, 21 Sloutan tent, 22 Trains, 24 Policeman's assigned route, 25 Shad, 26 Links party, 30 Marquis of rules, in boxing, 34 Thick, 35 Service branch: Abbr., 36 "pro nobis", 37 Willow, 38 Suffix with sheep or wolf, 39 Rude, derisory sounds, 43 Amino-acids sources, 45 Back talk, 46 Fade away, 47 Shackles.

© New York Times, edited by Eugene Melnick.



"HOW 'BOUT YOU AN' YOUR LIKELIHOOD TO SCHOOL WITH ME FOR 'SHOW AND TELL'?"

JUMBLE: THAT SCRAMBLED WORD GAME by Henri Arnold and Bob Lee. Includes a grid and a cartoon illustration.

Answer here: ME A (Answers tomorrow)

Friday's Jumble: PARCH WHILE KITTEN HOCUP. Answer: What a marriage proposal is — A HITCH PITCH.

WEATHER table with columns for EUROPE, ASIA, AFRICA, LATIN AMERICA, NORTH AMERICA, MIDDLE EAST, and OCEANIA. Includes high/low temperatures and weather conditions.

MONDAY'S FORECAST — CHANNEL: High, FRANKFURT: Foggy, Temp. 51 — 57 (52 — 44), LONDON: Thunderstorm, Temp. 50 — 59 (41 — 51), MADRID: Clear, Temp. 50 — 59 (41 — 51), PARIS: Partly, Temp. 51 — 57 (42 — 53), ROME: Partly, Temp. 51 — 57 (42 — 53), SYDNEY: Partly, Temp. 51 — 57 (42 — 53), TOKYO: Partly, Temp. 51 — 57 (42 — 53).

Astros Set Club Record With 94th Victory

HOUSTON — The 1986 Houston Astros, already champions of the National League West, have become the most successful team in the 25-year history of the franchise.

Nolan Ryan pitched the Astros to a 6-2 victory over the Atlanta Braves on Friday night that was Houston's 94th triumph of the season, against 66 losses. The victory eclipsed the club record of 93 set in 1980, the only other year the Astros won the NL West title.

Glenn Davis, the slugging first baseman, hit a two-run home run in the fifth inning, his 31st of the year. He has 100 runs batted in.

Ryan scattered five hits, struck out six and walked one. He retired the Braves in four innings before Bob Feller led off the fifth with his 27th homer.

Houston took a 3-0 lead in the second against Jim Acker with help' beat San Diego. The RBIs gave him 1,651 for his career, 14th on the all-time list.

Explos 6, Phillies 5: In Philadelphia, Darrin Billeardo of Montreal, who entered the game batting .187, hit a three-run homer and scored the winning run in the ninth inning.

Giants 8, Dodgers 2: In Los Angeles, rookie pitcher Kelly Downs of San Francisco scattered seven hits for his fourth consecutive victory.

Rangers 6, Angels 1: In the American League, in Arlington, Texas, rookie Bobby Witt won his seventh straight game for Texas to cap a dramatic turnaround from a 4-9 record. Witt hasn't lost a game since July 21. He allowed California three hits over five innings.

Brewers 4, Blue Jays 1: In Toronto, Bill Wegman combined with two relief pitchers on a four-hitter, although allowing Jesse Barfield's major-league-leading 40th homer for Milwaukee.

Royals 8, A's 4: In Oakland, California, Charlie Leibrandt and Dan Quisenberry combined on an eight-hitter and Jamie Quirk and Frank White homered for Kansas City.

FRIDAY BASEBALL: Craig Reynolds's two-run triple the key hit.

Ryan said afterward that he had been surprised by the way the Astros improved from an 83-victory season and a third-place tie in 1985.

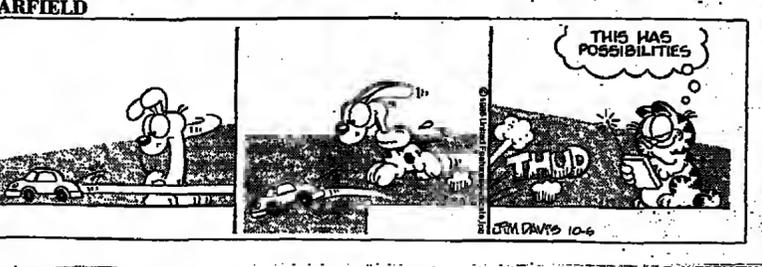
"I wasn't optimistic in the spring because we didn't make any moves over the winter like some other clubs did to improve ourselves," the veteran pitcher said. "This is one of those years that the things that had to happen, happened."

One of the things that happened was the development of Davis.

"I wasn't expecting this at the first of the year," said Davis, the first Houston player to drive in 100 runs since Bob Watson in 1977. "I wanted 90 RBIs and anything else is a bonus."

Royals 6, Padres 3: In Cincinnati, Tony Perez hit a two-run double to

PEANUTS



BOOKS

CITIES ON A HILL: A Journey Through Contemporary American Cultures

By Frances FitzGerald, 414 pp. \$19.95. Simon & Schuster, 1230 Avenue of the Americas, New York, N. Y. 10020.

Reviewed by Richard Critchfield

"We must consider that we shall be a City upon a Hill, the eyes of all people upon us," John Winthrop told his Puritan company crossing the Atlantic to found the Massachusetts Bay Colony. The remarkable thing was that four centuries later Americans were still self-consciously building cities on a hill.

With this, Frances FitzGerald launches us into four absorbing accounts of contemporary communities, all, she feels, exemplifying the old American habit of trying to start over. Her choices: the Castro, San Francisco's gay community; Liberty Baptist, Jerry Falwell's church in Lynchburg, Virginia; San City, a Florida retirement town; and Rajneeshpuram, the Indian guru's commune in Oregon.

"Cities on a Hill" advances the idea that American society, so big, diverse and kaleidoscopic, has never been able to agree on just exactly what its culture should be. Without a consensus on social conduct and values, FitzGerald suggests with wit and telling detail, groups of people have kept dropping what they are doing, taking off, and experimenting culturally with something new.

Her four community portraits make up most of the book. The rise and fall of gay liberation in San Francisco is the most detailed. It is perhaps FitzGerald's best. Here she captures the Fellini-like mood of a Gay Freedom Day Parade in 1978: "The crowd drifted off, and I turned to watch a man in a Batman cape and a sequined jockstrap roller-skating by. He had the torso of a dancer, and he moved with liquid, dreamlike movements, crossing and re-crossing the street. He glided through the Lutheran contingent and then swept through another group of elegantly carrying large placards of Christ on the cross. At the intersection he looped around a yellow taxicab filled with young women in T-shirts. The young women were leaning out of the windows cheering and bouncing around a sign that read

Solution to Friday's Puzzle: APSE AGITION PCT, SATE MARGIE ELSA, STANDUP ANDICHER, EARLEIEMIKARAT, STUNNER TESSERA, SARAIN SPITTSAR, SEMIS OOH ESS, SITINON, CAS NON SAMBA, MASH GETA MELBA, INCISED GRADUAL, STREPE ALEUT ELI, LIEDDOWN THE JOB, ENA RECODE RANI, DAM THEMAN AVES.

Richard Critchfield, the author of "These Days: An American Album" and "Villages," wrote this review for The Washington Post.

BRIDGE

Bridge game information including a deal diagram and commentary by Alan Truscott. The deal is: Spades: A, K, Q, J, 10, 9, 8, 7, 6, 5, 4, 3, 2, A; Hearts: A, K, Q, J, 10, 9, 8, 7, 6, 5, 4, 3, 2, A; Diamonds: A, K, Q, J, 10, 9, 8, 7, 6, 5, 4, 3, 2, A; Clubs: A, K, Q, J, 10, 9, 8, 7, 6, 5, 4, 3, 2, A.

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Irish Luck Runs Out Against Alabama

NEW YORK — Second-ranked Alabama broke a four-game losing streak against Notre Dame on Saturday as Mike Shula threw three touchdown passes during a 28-10 college football victory over the Fighting Irish.

U.S. COLLEGE FOOTBALL

Iowa 24, Michigan St. 21; No. 11 Iowa's defense forced five turnovers by No. 17 Michigan State, and backup quarterback Tom Pollock completed 18 of 29 passes for 240 yards and two touchdowns. The Spartans drove to the Hawk-eye's 4-yard line with 1:25 left, but were intercepted.



Alabama tackle Corliss Bennett beat a block and battered quarterback Steve Beuerlein for an eight-yard loss as the No. 2-ranked Crimson Tide beat Notre Dame for the first time.

Eagles Top Falcons, 16-0, To Upset 2d Straight Foe

ATLANTA — Junior Tantalasi and Ron Johnson turned short passes into long gains that set up two scores Sunday as the Philadelphia Eagles handed the Atlanta Falcons their first loss of the National Football League season, 16-0.

NFL ROUNDUP

The Bears' defense intercepted two passes by Tommy Krumer and sacked the Viking quarterback seven times for losses of 49 yards. Patriots 24, Dolphins 7: In Foxboro, Massachusetts, Tony Esco threw two touchdown passes against the young and wounded Miami defense as New England scored on five of its six first-half possessions.

Michigan, James Jones ran for 76 yards and two touchdowns as Detroit beat Houston despite an NFL career-high 398 yards passing by the Oilers' quarterback, Warren Moon.

Asian Games Success, Especially for Seoul

By Allan Kelly

SEOUL — The 10th Asian Games came to a fitting end Sunday as a capacity crowd of 100,000 packed the elegant Olympic stadium to cheer on South Korea to the soccer gold.

thrilling title chase after the powerful Chinese. The South Koreans' gold rush swept on in their own martial arts invasion of the Korean, but in judo, where they edged the formerly reigning Japanese, and in boxing, where outright aggression brought the hosts an unprecedented 12 of 12 titles.

By the final day, South Korea and China were even, each having won 92 golds. Only the silver tally separated them. Korean hopes, however, were quickly dashed as China's in-depth strength proved decisive in the two 4X100-meter relay races. The soccer gold made the final gap the narrowest possible: 94 for China, 93 for South Korea and 58 for Japan.

The standard of competition, in world terms, varied at the games. In the showpiece sports of athletics and swimming, the gap between Asian best and world best was still large. But in such sports as table tennis, judo and archery, the level was upped to Olympic standard.

Norman Wins Match Play By Beating Nicklaus, Lyle

WENTWORTH, England — Greg Norman of Australia won his third World Match Play golf title Sunday, beating Sandy Lyle of Scotland, 2 and 1.

Norman, the leading money winner on the U.S. circuit this year and the match play champion in 1980 and '83, opened a commanding lead against Lyle, then fought off a challenge before ending the match at the 35th hole.

Jack Nicklaus, right, watched a drive by Greg Norman in the semifinals. Norman won the match on the last hole.

Sweden Gains Cup Final; U.S. Stays in Contention



PRAGUE — Mikael Pernfors and Stefan Edberg completed a crushing victory over Czechoslovakia on Sunday as Sweden advanced to the final of the Davis Cup tennis competition for the fourth consecutive year.

In the other semifinal in Brisbane, Paul Anacone and Ken Flach of the United States received a standing ovation Sunday from Australian spectators when they kept U.S. hopes alive with a grueling, five-set victory over Australia's Pat Cash and John Fitzgerald in a five-hour doubles match.

SCOREBOARD

Tennis

Davis Cup
AN East-of-five matches
(All Australia, Australia)
Pat Cash, Australia, def. Tim Laine, U.S., 6-4, 6-3, 6-4, 7-6, 6-3.

Baseball

FRIDAY'S RESULTS
AMERICAN LEAGUE
Milwaukee 9, Detroit 4
Minnesota 7, Chicago 2

Baseball

NATIONAL LEAGUE
San Diego 9, Los Angeles 4
Pittsburgh 7, Cincinnati 2

Football

Selected U.S. College Scores
EAST
Army 41, Yale 24
Brown 24, Princeton 19

Selected U.S. College Scores

WEST
Arizona 24, Utah 14
California 24, Stanford 14

SPORTS BRIEFS

Dancing Brave Wins Arc de Triomphe

PARIS (AP) — Britain's Dancing Brave, ridden by Pat Eddery, scored a brilliant victory Sunday in the 65th Prix de l'Arc de Triomphe, winning by more than half a length after a tough battle in the final straight.

U.S. Facing Soviet in Volleyball Final

PARIS (AP) — The U.S. volleyball team, the Olympic gold medalist, was to meet the Soviet team, the defending titlist, in the final of the 1986 world men's championship after each team won its semifinal match Saturday, the United States downing Brazil, 15-5, 15-9, 15-3, after the Soviet Union defeated Bulgaria, 15-8, 15-2, 15-13.

Thorpe Leads Southern Open Golf

COLUMBUS, Georgia (AP) — Jim Thorpe came from five shots off the pace Saturday to hold a one-stroke lead after three rounds of the Southern Open golf tournament, shooting a six-under-par 64 for a 54-hole total of 200.

Men's Tournaments

Men's Tournaments
(All American)
US Open
Tommy Spivey, U.S., def. Greg Norman, Australia, 4-1, 6-3, 6-4, 6-3.

Major League Standings

AMERICAN LEAGUE
East Division
W L Pct. GB
New York 89 65 .574 -

Major League Standings

NATIONAL LEAGUE
East Division
W L Pct. GB
New York 89 65 .574 -

European Soccer

ENGLISH FIRST DIVISION
Chelsea 3, QPR 1
Coventry 0, Aston Villa 1

European Soccer

ITALIAN FIRST DIVISION
AC Milan 4, Avellino 1
Atalanta 1, Empoli 0

Transition

Transition
Baseball
AL—Normed Larry Brown, Larry McCoy, Nick Brunson, Terry Cowser, Rich Garcia and Rocky Roe umpires for the American League Championship Series.

For the Record

Amity Chief won the \$333,762 Messenger Stakes by 1 1/4 lengths Saturday night at Roosevelt Raceway in Westbury, New York, and spoiled Barbary Spur's bid for pacing's triple crown. Barbary Spur finished second.

Quotable

Earl Weaver, who is retiring again as the Baltimore manager, on the first sub-500 season in his career: "One good thing. The memory of this help me stay retired."

